Universidade do Minho
Escola de Economia e Gestão

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Equity Research Report
Lululemon Athletica Inc.

June 2026

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Lululemon Athletica Inc.

Master's Project
Master in Finance

Supervised by
Professor Gilberto Loureiro

June 2026

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RESUMO

Este Equity Research Report apresenta uma análise exaustiva da **Lululemon Athletica Inc. (LULU)**, uma das marcas mais resilientes e dominantes no mercado global de athleisure premium. A tese de investimento fundamenta-se na execução bem-sucedida do plano estratégico "Power of Three x2", que estabelece metas ambiciosas para duplicar as receitas nos segmentos masculino e digital, e quadruplicar a faturação internacional até 2026. A análise identifica a expansão acelerada na China Continental e a diversificação do mix de produtos com foco em calçado e vestuário técnico masculino, como os principais catalisadores de crescimento a médio prazo.

Do ponto de vista financeiro, a Lululemon destaca-se por um balanço "à prova de bala", caracterizado por uma posição de caixa robusta de aproximadamente $2 mil milhões e pela ausência total de dívida financeira, operando apenas com passivos relativos a locações. Com recurso a um modelo de Fluxos de Caixa Descontados (DCF), foi estimado um preço-alvo de **$237.96** para os próximos 12 meses, o que representa um **potencial de valorização (upside) de 25%** face ao preço de fecho de $191.07 em janeiro de 2026. Esta avaliação é corroborada por uma análise de múltiplos comparáveis, que revela um desconto injustificado da cotação face aos pares do setor, apesar das margens operacionais líderes da indústria. Não obstante os riscos geopolíticos e a crescente concorrência, a solidez operacional da empresa sustenta a recomendação de **COMPRA**.

Palavras-chave: Equity Research, Lululemon, Athleisure, Valuation, DCF, Power of Three x2.

ABSTRACT

This Equity Research report provides an in-depth analysis of **Lululemon Athletica Inc. (LULU)**, a global powerhouse and one of the most resilient brands in the premium athleisure market. The investment thesis is centered on the ongoing execution of the "Power of Three x2" strategic roadmap, which aims to double men's and digital revenues and quadruple international sales by fiscal year 2026. The report identifies the aggressive growth runway in Mainland China and strategic product diversification specifically in footwear and technical menswear as the primary catalysts for medium-term value creation.

Financially, Lululemon maintains a "bullet-proof" balance sheet, characterized by a robust cash position of approximately $2 billion and zero financial debt, with liabilities limited to operational store leases. Utilizing a Discounted Cash Flow (DCF) model as the primary valuation methodology, a 12-month target price of **$237.96** was derived, implying a **25% upside potential** from the market price of $191.07 as of January 2026. This target is further supported by a relative valuation analysis, which highlights an unwarranted market discount compared to industry peers, despite Lululemon's industry-leading operating margins. Notwithstanding geopolitical risks and rising competition, the company's operational excellence and strategic momentum support a **BUY** recommendation.

Keywords: Equity Research, Lululemon, Athleisure, Valuation, DCF, Power of Three x2.

TABLE OF CONTENTS

INVESTMENT SUMMARY **1**
Power of Three ×2 as a Growth Strategy 1
International Runway 2
Produtct Mix Runway 2
"Bullet-Proof" Financial Model 2
BUSINESS DESCRIPTION **2**
Revenue Quality: The Omni-Channel Physics 3
Geographic Reach and Operational Footprint 3
Product Innovation and the "Science of Feel" 4
The Lululemon's Customer and the Community Hub Model 5
ENVIRONMENTAL, SOCIAL & GOVERNANCE **5**
Environmental: The "Be Planet" Credibility Gap 6
Social: The Paradox 7
Governance: Structure, Succession, and Alignment 8
INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING **8**
Regional Dynamics: The West-East Divergence 9
Channel Dynamics: The "Phygital" Equilibrium 10
Demand Drivers 11
Supply Drivers 11
Competitive Positioning 11
FINANCIAL ANALYSIS **13**
Revenue Growth and Segement Expansion 14
Margins 15
Capex, Cash Flows and Working Capital 15
Profitability, Solvency and Liquidity 15
VALUATION **16**
DCF Valuation 16
Sensitivity Analysis 17
Scenario Analysis 17
Relative Valuation 19
INVESTMENT RISKS **20**
Strategic Risks (SR) 20
Market Risks (MR) 20

Climate Risks (CR) 21
Financial Risks (FR) 21
REFERENCES 22
APPENDICES 24

LIST OF FIGURES

Figure 1: Lululemon Daily Stock Price Evolution 1
Figure 2: Valuation of Lululemon 1
Figure 3: Lululemon's Power of Three x2 Strategy 1
Figure 4: Lululemon's Sales per Region (FY2025) 2
Figure 5: Lululemon's C&CE and ROIC 2
Figure 6 - First Lululemon Store, West 4th Avenue, Vancouver Kitsilano 2
Figure 7: Lululemon's Company Operated Stores 3
Figure 8: Lululemon's Stores in China 3
Figure 9: Lululemon's Science of Feel 4
Figure 10: Marketing Costs (% of sales) 5
Figure 11: ESG Morningstar Rating 5
Figure 12: Number of workers participating in wellbeing programs Lululemon's 2024 Impact Report 5
Figure 13: Chip Wilson 2013 Scandal 6
Figure 14: Lululemon's Americas Comparable Sales (YoY % change) 6
Figure 15: Lululemon's P/E Ratio 6
Figure 16: % reduction in Scope 3 emissions intensity 7
Figure 17: % of products procured containing at least 25% preferred materials 7
Figure 18: Lululemon's Like New Program 7
Figure 19: % of company-operated stores in North America offering Like New 7
Figure 20: 2023 KnowTheChain Benchmark 8
Figure 21: Lululemon's IDEA Highlights 8
Figure 22: US's active wear sales CAGR evolution 8
Figure 23: Value market share over past 10 years 8
Figure 24: Global Wellness Economy CAGR 9
Figure 25: China Activewear Market Growth Projections 9
Figure 26: Shopping Trends 2024 10
Figure 27: US Hybrid Work Indicator 11
Figure 28: SWOT Analysis 12
Figure 29 - Revenue Evolution in FY2021 - 2030E 14
Figure 30 - Revenue Breakdown by Distribution Channel 15
Figure 31 - Revenue Breakdown by Product 15
Figure 32 - Margins Trend (FY2021 - 20230E) 15
Figure 33 - FCFF Trend (FY 2021-20230E) 15
Figure 34 - ROA, ROE and ROIC Trend (FY2021-2030E) 16
Figure 35 - Cash Conversion Cycle and Solvency Ratios 16

LIST OF TABLES

Table 1: Lululemon Investment Highlights 1
Table 2: Lululemon's Main Shareholders 6
Table 3: Lululemon Key Financials: Actual Values for 2021-2024, Expected Values for 2025 and Forecasted Values for 2026-2030 14
Table 4: DCF Valuation 16
Table 5: FCFF and Terminal Value Estimates 16
Table 6 - WACC Calculation 17
Table 7: Sensitivity Analysis: WACC and TGR 17
Table 8: Scenario Analysis 17
Table 9: Relative Valuation: EV/Revenue, EV/EBITDA and P/E 19
Table 10: Lululemon's Risk Matrix 20

LIST OF ABBREVIATIONS

$ – US Dollar

% – Percentage

ABC - Anti-Ball Crushing

APAC - Asia-Pacific

CAC - Customer Acquisition Cost

CAD - Canadian Dollar

CAGR - Compound Annual Growth Rate

CAPM - Capital Asset Pricing Model

CAPEX - Capital Expenditure

CCO - Chief Commercial Officer

CEO - Chief Executive Officer

CFO - Chief Financial Officer

CNY - Chinese Yuan Renminbi

COGS - Cost of Goods Sold

CR - Climate Risks

DCF - Discounted Cash Flow

DTC - Direct-to-Consumer

EBIT - Earnings Before Interest and Taxes

EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization

EPS - Earnings Per Share

ESG - Environmental, Social and Governance

EUR - Euro

EV - Enterprise Value

FCFF - Free Cash Flow to the Firm

FR - Financial Risks

FX - Foreign Exchange

FY - Fiscal Year

MR - Market Risks

OTM - On The Move

P/E - Price-to-Earnings ratio

ROA - Return on Assets

ROE - Return on Equity

ROIC - Return on Invested Capital

SR - Strategic Risks

SWOT - Strengths, Weaknesses, Opportunities, Threats

TAM - Total Addressable Market

TGR - Terminal Growth Rate

TV - Terminal Value

US - United States

USD - United States Dollar

WACC - Weighted Average Cost of Capital

YoY - Year-over-Year

Recommendation	BUY
Current price (23/01/2026)	$191.07
12-Month Target Price	$237.96
Upside	25%
52-week range	$159.25 - $423.32
Industry Sector	Consumer Discretionary
Ticker	LULU
Stock exchange	NASDAQ
Shares outstanding (mm)	112.19 mm
Market capitalization ($bn)	22.41 $bn
EPS (FY 2025)	$14.25
Free Float	94%

Table 1: Lululemon Investment Highlights
Source: Author, Company Data



Figure 2: Valuation of Lululemon
Source: Author, Company Data

Lululemon Athletica Inc. is a global player in the premium athleisure market, standing out for its lifestyle-inspired athletic apparel and accessories. Over the years, Lululemon has created a strong brand and a vertically integrated business model with drives brand loyalty.

Figure 1: Lululemon Daily Stock Price Evolution



Source: Investing.com

Based on a self-made recommendation system, presented in Appendix 1, the report issues a **BUY** recommendation for Lululemon stock 2026 (Table 1). The 12-month target price of **$237.96** represents an upside of 25% relative to the closing price of 23rd January (Figure 1). To estimate the price target, a DCF model was used, complemented by a sensitivity analysis and a relative valuation (Figure 2).

The recommendation thesis is based on the following **bull thesis pillars**.

INVESTMENT SUMMARY

POWER OF THREE ×2 AS A GROWTH STRATEGY

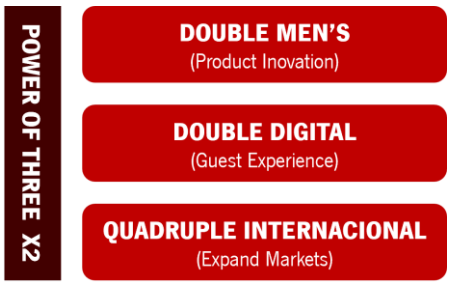


Figure 3: Lululemon's Power of Three x2 Strategy
Source: Author, Company Data

Lululemon established, in 2021, an ambitious target for FY2026, which involves **doubling revenues to $12.5 billion**. Although the goal is based on a single numerical target, the roadmap is well quantified: doubling **men's product** revenues, doubling the **digital** revenue stream, and quadrupling **international** revenue (Figure 3). As of today, the model projects the company not to reach those objectives. Nevertheless, the strategy is focused on the major growth avenues of the business and, even if not fully achievable, will strengthen the brand and break two major barriers that have negatively affected stock performance in recent years: product mix limitations (selling mainly to women) and geographic limitations (high exposure to the US market).

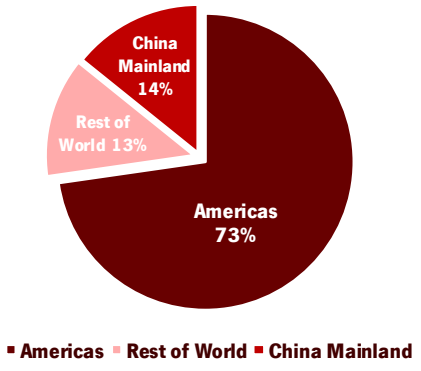


Figure 4: Lululemon's Sales per Region (FY2025)
Source: Author, Company Data

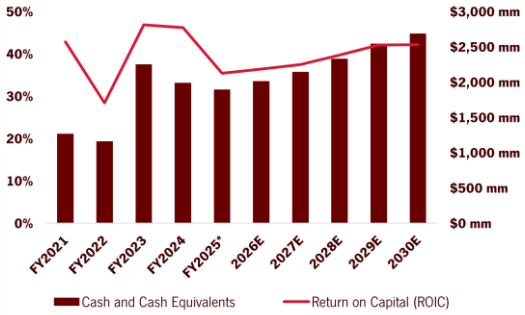


Figure 5: Lululemon's C&CE and ROIC
Source: Author, Company Data

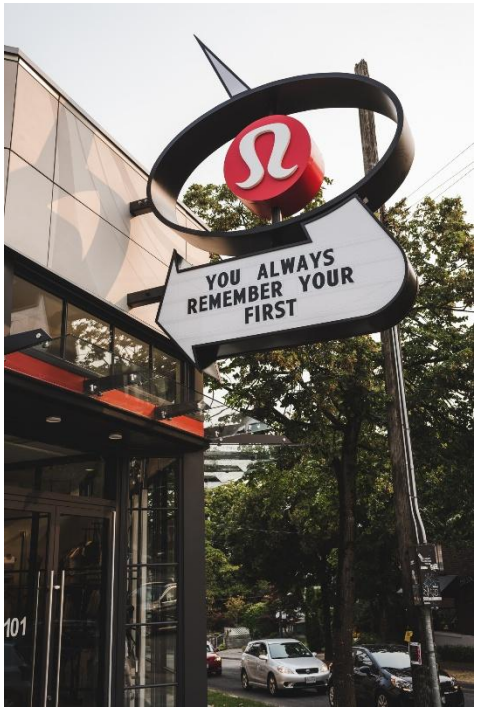


Figure 6 - First Lululemon Store, West 4th Avenue, Vancouver Kitsilano
Source: Lululemon

INTERNATIONAL RUNWAY

Lululemon is in the early stages of its global strategy. Markets outside North America account for only 27% of total sales in FY2025 (Figure 4), but this figure has increased from 15% in FY2021. The brand's international expansion is evident in its strong growth in China (41% revenue growth in FY2024) and in the broader "Rest of World" segment (27% growth). The untapped **international TAM** represents one of the most significant long-term value drivers.

PRODUCT MIX RUNWAY

Beyond the international runway, Lululemon has been expanding its product portfolio. The men's category continues to grow in absolute terms but still represents only 25% of total sales. This percentage has remained stable over the past three years. However, the **men's category** has been growing faster than the more mature women's category. The stable weight is due to rapid growth in the "other products" category, which includes footwear. **Footwear** is a recent investment for Lululemon and represents a multi-billion-dollar opportunity, allowing the company to leverage its loyal customer base to capture a greater share of customers' wallets.

"BULLET-PROOF" FINANCIAL MODEL

Lululemon has a vertically integrated business model, with most revenues coming from DTC operations, either company-operated stores or digital channels. This allows the company to maintain gross margins consistently above 55% and ROIC above 40%. These ratios, combined with a **debt-free** balance sheet (excluding lease obligations related to stores) and nearly **$2 billion in cash** (Figure 5), enable the company to pursue growth strategies and provide value to shareholders through substantial share repurchase programs.

BUSINESS DESCRIPTION

Founded in 1998 in Vancouver by Chip Wilson, Lululemon was not created to be just another apparel brand, but to respond to a socioeconomic shift. Wilson identified a specific emerging demographic group, which he named the **"Super Girl"**. These were women who were delaying childbirth, prioritizing careers, investing in their health, and travelling frequently. The existing market at the time was based on "shrink it and pink it" versions of men's sportswear, which did not address the aesthetic needs of this "Super Girl" type of customer.

What started as a design studio by day and a yoga studio by night soon became a standalone store in November 2000 on West 4th Avenue, in Vancouver's Kitsilano neighborhood. This dual purpose allowed the brand to integrate itself organically into local communities, even before a single dollar was spent on marketing. For these customers, buying a Lululemon product was not about a transaction, but about participation and belonging. Therefore, purchasing a Lululemon item was a way of

joining a community rather than simply buying another apparel product. It was no longer about ***"shrink it and pink it"***, but about having products designed by, with, or for customers.

This philosophy was set in stone by the **#thesweatlife** manifesto, which positioned the brand around self-improvement, mindfulness, and personal discipline. Lululemon came to sell values and a lifestyle rather than just products. In this context, purchasing a $100 pair of leggings is no longer a retail decision, but an expression of identity, which has driven unusually **strong brand loyalty** and generated one of the company's most important intangible assets. This asset has enabled long-term value creation and growth for the brand, allowing what once stood on West 4th Avenue in Vancouver's Kitsilano to become a global presence.

REVENUE QUALITY: THE OMNI-CHANNEL PHYSICS

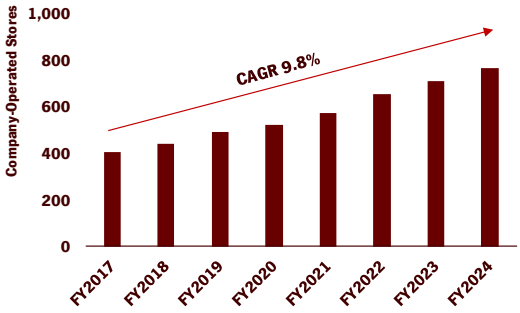


Figure 7: Lululemon's Company Operated Stores
Source: Author, Company Data

With a vertically integrated business model, Lululemon has complete control over the brand, product quality, and customer experience. There are mainly two revenue streams. On the one hand, Lululemon operates **company-owned stores**, which include over 760 physical retail locations (Figure 7). These represent more than simple retail outlets, as the brand inspires a sense of community; they function as community hubs, serve as the main point of customer interaction, and provide important insights into customer experience. On the other hand, Lululemon has been expanding its **Direct-to-Consumer (DTC)** channel, which is essentially the e-commerce arm of the business and already represents 43% of total sales, compared to 29% in FY2020, prior to the COVID-19 pandemic.

Beyond these main revenue streams, there is also an "Other" segment, which includes partnerships with fitness studios, sales at temporary retail locations, and licensing. This segment has been declining in recent years. In 2017, Lululemon partnered with a local franchise in Mexico, but in 2024 it acquired these stores to convert them into company-operated locations. This approach gives Lululemon greater control over the brand. As a result, the "Other" category is now more focused on temporary locations to build brand awareness and on outlets to manage inventory.

GEOGRAPHIC REACH AND OPERATIONAL FOOTPRINT

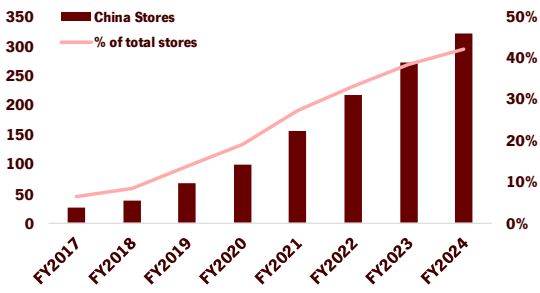


Figure 8: Lululemon's Stores in China
Source: Author, Company Data

Lululemon is currently pursuing geographical diversification under the "Power of Three ×2" growth plan. The main objective is to **evolve from a US-centric retailer to a global brand**. While America still accounts for nearly 75% of total revenue in FY2024, the global revenue stream is growing at a fast pace. Mainland China contributes 14% of overall revenue, reflecting a 41% YoY growth from FY2023 to FY2024, while the Rest of World segment, which includes Europe, APAC, and other markets, accounts for 13% of revenue (Figure 4).

North America is clearly a mature market, with 374 stores in the US and 71 in Canada. In this market, Lululemon is expected to grow the business through optimization and e-commerce. On the other hand, **China represents a growth runway** for company-operated store revenue, already counting 322 stores in

Mainland China and People's Republic of China, up from 273 the previous year. Although Lululemon is focusing on top-tier cities such as Shanghai and Beijing, it is already expanding into top-tier 2 cities to capture the upper-middle class. In the Rest of World segment, some markets deserve mention, including the UK with 19 stores, Germany with 9, and Australia, which is a stronghold in the APAC region, with 32 stores.

Looking into Lululemon's global supply chain, product design occurs in Vancouver, while manufacturing is outsourced for scalability and cost efficiency. In 2024, approximately 42% of products were manufactured in Vietnam, followed by 16% in Cambodia, 11% in Sri Lanka, and 10% in Indonesia. Proprietary fabrics are sourced from Taiwan (40%) and Mainland China (26%). This represents one of the biggest threats to the business. We live in a world where geopolitical tensions are emerging, making it problematic for a US company to have such dependence on China and Taiwan, especially considering China's interests in Taiwan.

One of the most important competitive advantages—the proprietary fabrics—is under serious threat. Nevertheless, this situation also applies to competitors, especially Nike and other major players, who are highly dependent on the scalability these countries provide.

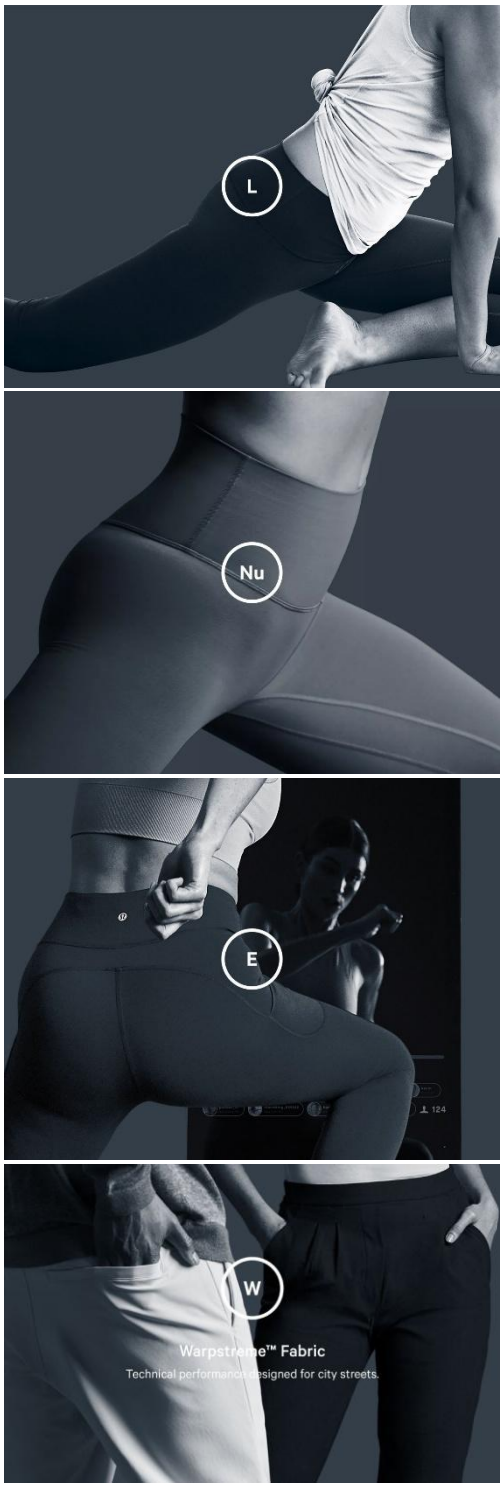


Figure 9: Lululemon's Science of Feel
Source: Lululemon

PRODUCT INNOVATION AND THE "SCIENCE OF FEEL"

Lululemon is well known for its proprietary fabric development, marketed as the **"Science of Feel"** (Figure 9). This contrasts with fast-fashion competitors, which outsource their fabrics and typically use lower-quality materials. Lululemon's engineering teams, which grew within the community, solved real problems for customers, creating **high switching costs** due to the unique feel and performance of its proprietary fabrics compared to those of conventional apparel brands. The brand stands out for **four major proprietary fabrics**.

The first is **Luon**, the brand's original breakthrough, developed to solve a problem of the 1990s: transparency. At the time, conventional cotton leggings were see-through, creating embarrassment and discomfort during yoga classes due to traditional yoga poses. Luon is characterized by a cotton-like touch combined with Lycra, allowing four-way stretch while maintaining substantial coverage.

The second is **Nulu**, which was developed in response to customers who felt compressed by conventional leggings. Nulu was marketed as the "**Naked Sensation"**. The fabric is buttery soft and extremely lightweight and served as the base for the Align pant, one of Lululemon's most well-known collections. Its economics are exceptional, as it commands a premium price point ($98–$118) while requiring minimal design updates. Demand is driven by the fabric itself rather than seasonal redesigns, allowing for long inventory shelf lives.

The third is **Everlux**, developed to address issues related to humidity and heat management. While Nulu is well suited for low- or non-sweat environments, it performs poorly in high-sweat activities. Everlux is used in Lululemon's "Wunder Train" line and allowed the company to expand product usage potential by selling

multiple leggings to the same customer for different use cases (e.g., yoga versus spin class), thereby capturing a greater share of customers' wallets.

The last is **Warpstreme**, which marked Lululemon's expansion into **men's clothing**. Warpstreme was the pillar of the "On The Move" (OTM) category. The fabric addresses the discomfort of traditional denim or chinos by offering the appearance of dress pants with the stretch and comfort of athletic wear. With this fabric, Lululemon was able to launch the ABC (Anti-Ball Crushing) Pant, a product specifically designed for men, demonstrating that the brand could solve problems beyond the yoga studio and the women's category. The economics of the ABC franchise are highly attractive, as men tend to buy in bulk once they find a suitable fit, leading to high transaction values and low return rates.

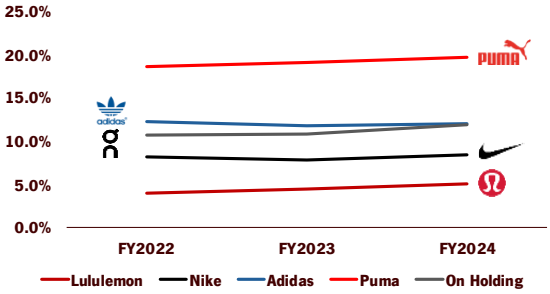


Figure 10: Marketing Costs (% of sales)
Source: Author, Company Data

THE LULULEMON'S CUSTOMER AND THE COMMUNITY HUB MODEL

Lululemon is well known for its marketing efficiency, which is driven by its **"Community Hub" Model**, in contrast to the celebrity endorsement model used by its competitors.

Lululemon defines its customers as **"Guests"**, reflecting the nature of the retail interaction and the brand's emphasis on hospitality. The core guest view health not only as fitness, but also as a status symbol. Lululemon apparel is the means through which they connect with that status, signaling to others like them that they are part of a community of wellness-oriented individuals.

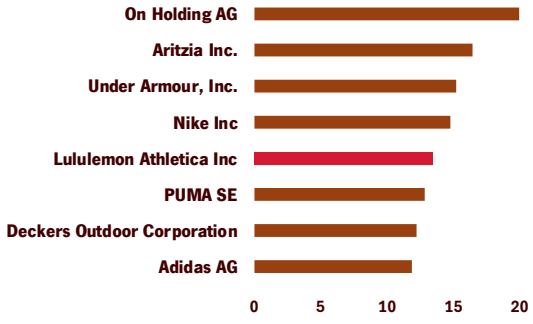


Figure 11: ESG Morningstar Rating
Source: Author, Sustainalytics

While Nike and other major competitors may pay a single athlete $100 million for global reach, Lululemon empowers thousands of **local ambassadors**, such as yoga teachers, run club leaders, and fitness instructors. These ambassadors receive free products and development training in exchange for hosting classes and wearing Lululemon clothing.

This strategy creates a network effect. A yoga student implicitly trusts their instructor; when the instructor wears Lululemon, the endorsement is organic and highly program is primarily the cost of goods sold (COGS) of the free products. Consequently, Lululemon's marketing spend as a percentage of revenue has historically hovered around 4–5%, compared to 8–9% for Nike, 12–13% for Adidas, and 17–18% for Puma (Figure 10). This difference represents a durable cost advantage that is difficult to replicate, as building a strong sense of community takes time.

ENVIRONMENTAL, SOCIAL & GOVERNANCE

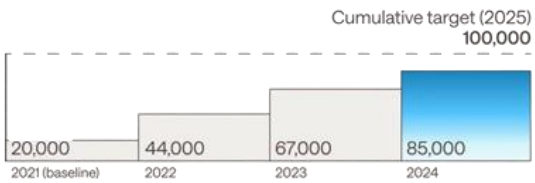


Figure 12: Number of workers participating in wellbeing programs
Lululemon's 2024 Impact Report

In recent years, Lululemon has become well known for its emphasis on employee wellbeing (Figure 12), workplace inclusivity, and responsible manufacturing practices. However, this was not always the case. In 2013, **Lululemon's founder, Chip Wilson**, stepped down as CEO following the "sheer yoga pants" scandal, in which his comments blaming women's bodies for product quality issues alienated consumers (Figure 13). Nevertheless, he maintained a significant shareholding in the company,



Figure 13: Chip Wilson 2013 Scandal
Source: BBC, CBC, NY Post

Investor	Date	% Owned	Shares
The Vanguard Group, Inc.	31/12/2025	11.38%	13.4M
BlackRock, Inc.	30/09/2025	8.46%	9.9M
Dennis James Wilson	**29/12/2025**	**7.03%**	**8.3M**
State Street Global Advisors, Inc.	30/09/2025	3.97%	4.7M
Vanguard Total Stock Market ETF	31/12/2025	2.88%	3.4M

Table 2: Lululemon's Main Shareholders
Source: Author, Company Data

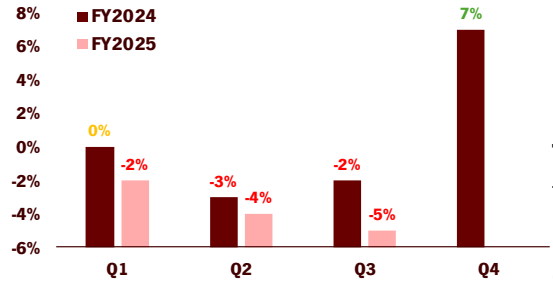


Figure 14: Lululemon's Americas Comparable Sales (YoY % change)
Source: Author, Company Data

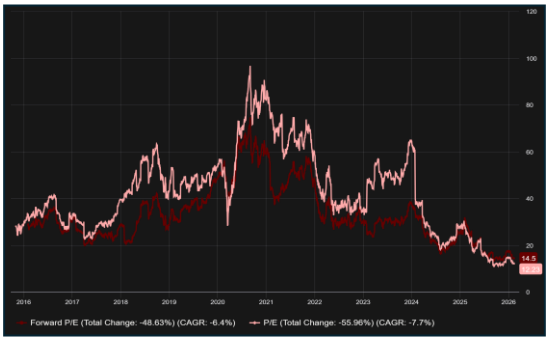


Figure 15: Lululemon's P/E Ratio
Source: Fiscal.ai

which today stands at approximately 7.0%, allowing him to retain influence over the company (Table 2).

Following Wilson's departure, Lululemon aimed to professionalize management by hiring **Laurent Potdevin**. While Potdevin's leadership was initially effective, restoring shareholder trust and maintaining a clear growth path, it ended abruptly in 2018 when he was removed following a violation of the company's code of ethics. Lululemon never disclosed details of the violation, but subsequent investigations revealed a hostile professional environment characterized by favouritism, bullying, and gender discrimination. The board's response was heavily criticized by shareholders, as despite dismissing the CEO, it ultimately reached a settlement in which Potdevin received a payment of nearly $5 million.

In 2018, **Calvin McDonald** assumed leadership of Lululemon, and under his tenure the company resumed growth while shareholder confidence increased. He launched the Power of Three strategy and managed to triple annual revenues, expand into China, making it the company's second-largest market, and enter new categories, such as footwear. However, from 2024 onwards, growth began to slow. The rise of emerging brands such as On Holding, Vuori, and Alo has increasingly positioned Lululemon as a secondary choice, and recent product launches, such as "Breezethrough", faced resistance from customers. Comparable sales in the Americas declined by 5% in 3Q2025 (Figure 14), signaling weakness in the more mature market and lending support to Chip Wilson's recent comments criticizing leadership for losing focus on the product.

In December 2025, Lululemon also announced that **McDonald would step down from leadership as of 31 January 2026**. As of today, the market only knows that two co-CEOs will assume interim roles (Meghan Frank, CFO, and André Maestrini, CCO), while McDonald will remain as a senior advisor until March 2026. To further complicate the situation, the board is facing a significant internal conflict regarding the appointment of a new CEO. Chip Wilson has nominated three dissident directors (Marc Maurer, Laura Gentile, and Eric Hirshberg) to challenge what he views as the board's lack of oversight. Simultaneously, the well-known "activist investor" Elliott Investment Management has acquired a $1 billion stake, pushing for operational changes and advocating for former Ralph Lauren executive Jane Nielsen as the next CEO. This convergence of internal leadership uncertainty and external pressure has increased shareholder uncertainty and has begun to justify a significant "discount" on Lululemon shares (Figure 15).

ENVIRONMENTAL: THE "BE PLANET" CREDIBILITY GAP

Like any athletic apparel brand, Lululemon faces high environmental risk. While the company markets the **"Be Planet"** slogan, its production remains heavily dependent on fossil fuel–derived materials, such as polyester and nylon, creating a natural barrier to one of the most important steps of the "Be Planet" strategy: **decarbonization**.

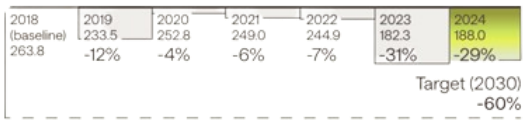


Figure 16: % reduction in Scope 3 emissions intensity
Source: Company Data

Emissions | Scope 3 emissions, related to the supply chain, account for more than **95% of the company's total carbon footprint**. While owned operations have already met renewable energy targets, third-party operations have lagged behind, which is largely justified by Lululemon's dependence on mass production. In addition, the company relies on intensity targets (reducing emissions per unit of value) rather than absolute reductions across its supply chain (Figure 16), a strategy that has been criticised by climate-focused investors.

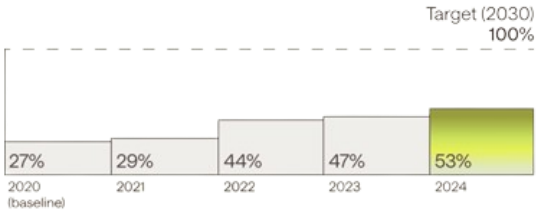


Figure 17: % of products procured containing at least 25% preferred materials
Source: Company Data

Materials | The transition to sustainable materials is taking longer than the company originally anticipated. In its 2024 Impact Report, Lululemon downgraded its goal of using 100% sustainable nylon by 2030 (originally announced in 2020) to 75%, acknowledging the technical and economic difficulties associated with recycling nylon 6,6 (Figure 17). While Lululemon announced a partnership with Samsara Eco for enzymatic recycling, it remains in the early stages and has not yet reached commercial scale.

Greenwashing Litigation | In 2024, the company faced a lawsuit ***(Gyani v. Lululemon)*** alleging that its "Be Planet" campaign was misleading given its rising emissions. Although the case was dismissed on technical grounds related to standing, the court acknowledged the plaintiffs' concerns regarding the gap between the company's marketing claims and its actual environmental impact.

Circular Economy Limits | Lululemon launched **"Like New"** (Figure 18), a resale programme intended to support its circular economy objectives. However, it is limited to the US and did not expand even to Canada during 2024 or 2025 (Figure 19). This raises serious doubts about its economic viability and scalability.



Figure 18: Lululemon's Like New Program
Source: Lululemon

SOCIAL: THE PARADOX

The social pillar presents a paradox between internal corporate culture and external supply chain risks.

Supply Chain | Lululemon is ranked first in the KnowTheChain benchmark for its well-known policies and disclosures on forced labour (Figure 20). However, independent investigations conducted by Sheffield Hallam University flagged a "high risk" of cotton from the Uyghur region entering Lululemon's supply chain through some intermediate suppliers, despite the company's efforts to audit these partners. This represents a red flag that exposes Lululemon to legal risks under the Uyghur Forced Labor Prevention Act (UFLPA), as well as reputational risks, particularly in Western markets, which are known for having more socially conscious consumers.

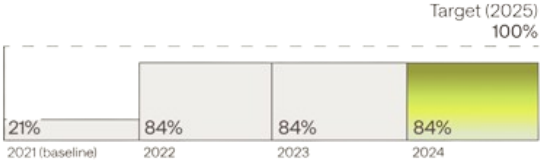


Figure 19: % of company-operated stores in North America offering Like New
Source: Company Data

Internal Culture (IDEA) | Following the Potdevin leadership period, Lululemon moved towards Inclusion, Diversity, Equity, and Action (IDEA), achieving 100% gender pay equity and 41% racially diverse representation in retail leadership roles below the assistant manager level (Figure 21). This may indicate a healthy and equitable internal pipeline that promotes meritocracy and talent diversity.

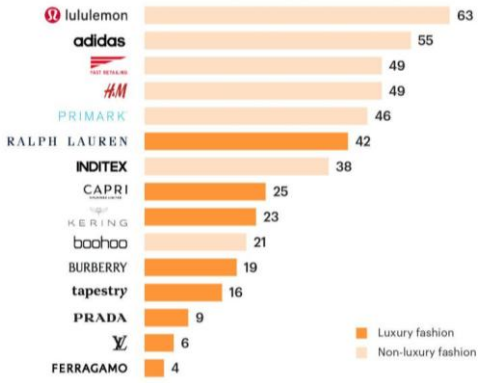


Figure 20: 2023 KnowTheChain Benchmark
Source: Business and Human Rights Centre (BHRC)



Figure 21: Lululemon's IDEA Highlights
Source: Lululemon

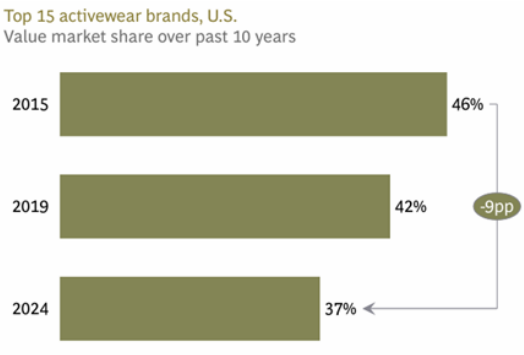


Figure 23: Value market share over past 10 years
Source: BCG

GOVERNANCE: STRUCTURE, SUCCESSION, AND ALIGNMENT

Governance is currently the most material ESG risk factor, weighing on the stock's valuation multiple.

Board Structure & Composition | The **board is classified** (staggered), meaning that directors have three-year terms and only a subset faces re-election each year. Chip Wilson has submitted a proposal to declassify the board in order to increase director accountability. One point worth mentioning is that **55% of the board is female**, reflecting strong gender diversity embedded in the IDEA framework.

Executive Compensation | Annual bonuses rely primarily on **financial metrics** such as operating income and net revenue, lacking a quantitative weighting for ESG performance indicators, such as Scope 3 emissions reduction.

Succession Planning Failure | The departure of Calvin McDonald without a named permanent successor has been cited by Wilson as a failure of board oversight. The main challenge for Lululemon is to ensure a smooth interim leadership period and to appoint a new CEO who can restore shareholder confidence and refocus the company on product excellence, protecting the brand from emerging competitors and repositioning it as the first choice for consumers.

INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

The global activewear market is facing an inflection point in 2026, transitioning from the fast-paced post-COVID-19 growth to a more mature growth phase in the following years (Figure 22).

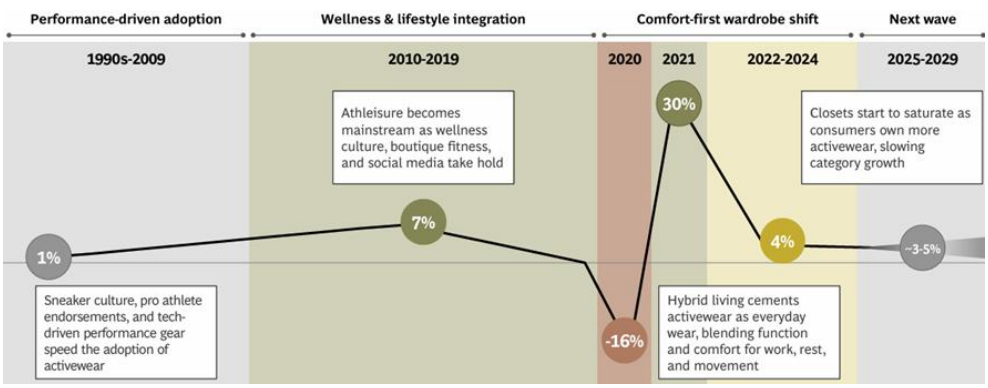


Figure 22: US's active wear sales CAGR evolution
Source: Euromonitor; S&P Global; BCG

It is possible to divide the market into two major groups. On the one hand, there is the broader market, which is highly fragmented. On the other hand, there is the high-performance tier, which is dominated by a concentrated group of incumbents with pricing power and proprietary technology, such as Nike, Adidas, and Lululemon. At the same time, major disruptive challengers such as Alo Yoga and Vuori are emerging, threatening to disrupt established leaders. Between 2015 and 2024, the combined market share of the top 15 activewear brands declined from 46% of total market share to only 37% by the end of 2024, which puts significant pressure on

brands such as Lululemon and emphasises the need to focus on innovation and product excellence (Figure 23).

In 2024, the **global activewear market size** was estimated at approximately **$406.83 billion**. Projections indicate that the market is expected to reach $677.26 billion by 2030, implying a CAGR of 9.0%. While more conservative estimates forecast a CAGR of 6.3% through 2029, it is clear that the activewear market will outperform the broader apparel industry, which is forecast to grow at only a 2.81% CAGR through 2028.

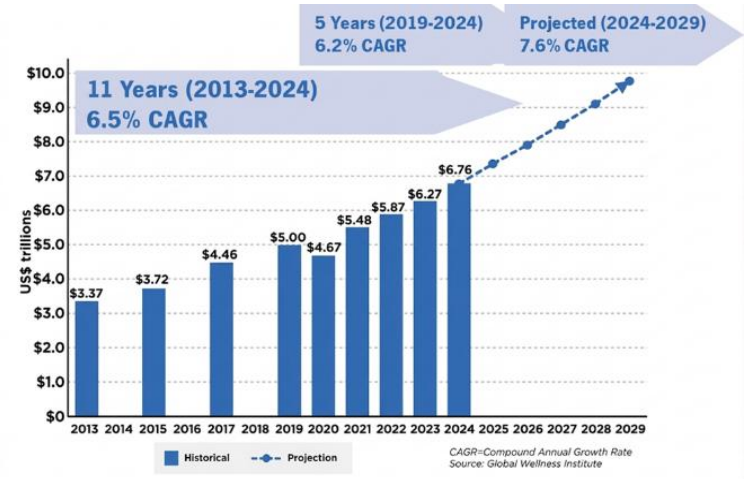


Figure 24: Global Wellness Economy CAGR
Source: Global Wellness Institute

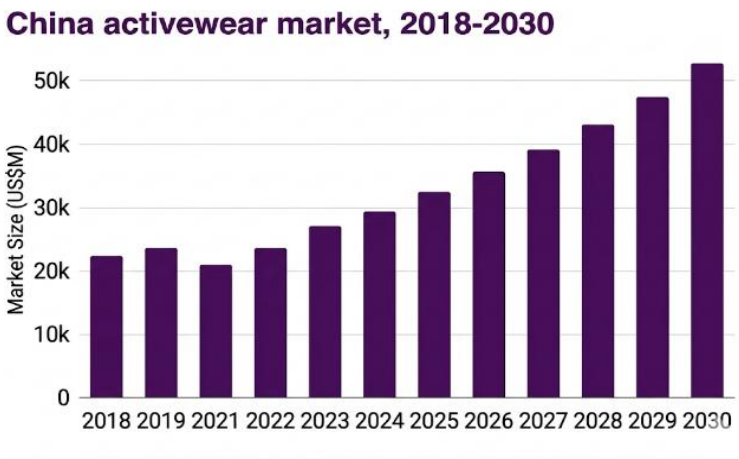


Figure 25: China Activewear Market Growth Projections
Source: Grand View Research

The broader **"Wellness Economy"**, from which activewear derives, reached a **valuation of $6.8 trillion in 2024** and is projected to grow at 7.6% YoY through 2029, reaching a valuation of $9.75 trillion (Figure 24). This macro trend suggests that activewear is not only a fashion category but also a non-discretionary expenditure for a growing demographic that prioritises health, longevity, and mindfulness.

REGIONAL DYNAMICS: THE WEST-EAST DIVERGENCE

While North America remains the volume leader, Asia-Pacific (APAC) stands out as the primary growth engine for the activewear market.

North America | In 2024, the region accounted for approximately **38.46% of the global activewear market share**. The market is characterized by high per capita spending, with growth driven by "premiumization" and the blurring of lines between workwear and workout apparel, particularly due to the rise of hybrid work following the COVID-19 pandemic.

Asia-Pacific (China) | China's activewear market generated **$29.8 billion in 2024** and is projected to reach $52.6 billion by 2030, with a CAGR of 10%, outpacing the global average (Figure 25). This growth is also supported by government initiatives such as "Healthy China 2030", which aims to engage 700 million people in physical activity. While Tier 1 cities are becoming more mature markets, Tier 2 and Tier 3

cities remain key growth avenues, as international brand penetration is still relatively low.

CHANNEL DYNAMICS: THE "PHYGITAL" EQUILIBRIUM

As of today, we are witnessing an equilibrium between digital commerce and physical retail, a phenomenon that can be described as **"phygital"**, in which physical stores play a critical role not in sales volume, but as hubs for customer acquisition and brand equity.

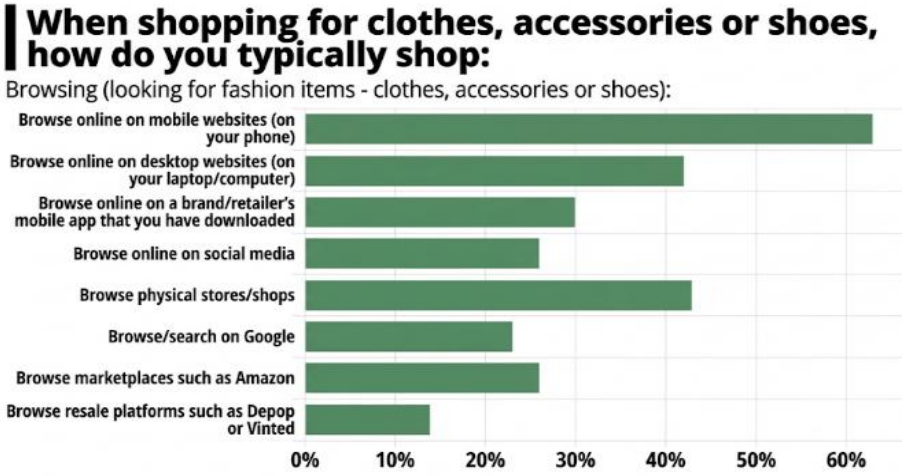


Figure 26: Shopping Trends 2024
Source: Drapers

After the pandemic, the narrative of a **"retail apocalypse"** emerged, but data from 2025 indicate that 43% of consumers now prefer browsing in physical stores, up from 32% in 2024 (Figure 26). This trend can be attributed to two main factors:

Store as a Hub | Especially for premium brands such as Lululemon and Alo Yoga, stores have always been more than points of transaction. While Lululemon identified this early on, Alo Yoga has followed a similar path by expanding its "Sanctuaries," which are large stores featuring yoga studios and organic cafés, thereby increasing brand immersion.

Unit Economics | Lululemon leads the industry with exceptional **sales per square foot of approximately $1,574**, which justifies its capital-intensive vertical retail strategy over a wholesale-heavy model, as well as the progressive costs associated with store leasing (the only form of debt on Lululemon's balance sheet).

However, it is important to distinguish between browsing and buying. While in-store traffic has returned, the digital channel remains the primary driver of operating margin expansion.

Revenue Mix | Most of Lululemon's peers do not disclose exact e-commerce sales percentages, instead reporting revenues generated through the DTC channel, which also includes company-operated retail stores. Nevertheless, it can be confirmed that Lululemon consistently generates a higher proportion of sales via e-commerce (43% in 2024). One of the most comparable peers, On Holding, generated 40.7% of its

sales through DTC. It is worth mention that company-operated stores are also included in this figure.

Strategic Divergence | While brands such as On Holding, Lululemon, Vuori, and Alo Yoga are doubling down on DTC to maintain pricing control and improving customer experience, more generalist brands such as Nike are returning to wholesale partnerships that were reduced during the COVID-19 pandemic (e.g., Foot Locker), after acknowledging that a purely digital strategy opened the door to emerging competitors that recognized stores as strategic hubs.

DEMAND DRIVERS

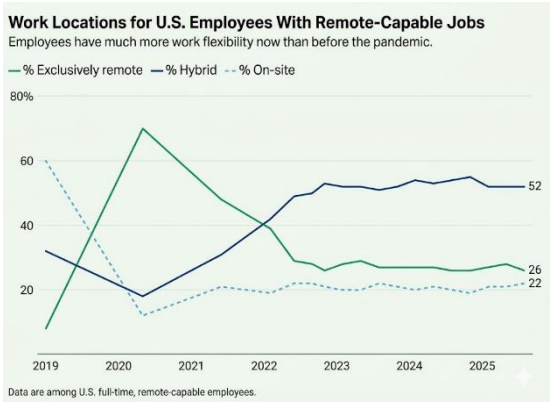


Figure 27: US Hybrid Work Indicator
Source: GALLUP

Institutionalisation of Hybrid Work | The **"casualisation"** of the workplace has grown since the COVID-19 pandemic. As hybrid work models persist beyond the pandemic, demand for "workleisure" (e.g., Lululemon's ABC Pant, Vuori's Meta Pant) continues to rise, expanding the TAM beyond the gym.

The "Dupe Culture" | Higher inflation during 2022–2024 and the rise of micro-influencers on social media have destigmatised the use of **"dupes"**. Amazon-native brands such as CRZ Yoga offer similar products at approximately 30% of the price. This creates a paradox. On the one hand, it pressures pricing power at the entry level of athletic luxury; on the other hand, it reinforces Lululemon's status as the **"original" luxury standard**.

Community & Experience | The modern consumer increasingly seeks belonging. Lululemon's "Community Hub" model, based on local ambassadors, and Alo Yoga's "Wellness Clubs" significantly reduce customer acquisition costs (CAC) compared to traditional paid advertising.

SUPPLY DRIVERS

China Diversification | Dependence on Chinese manufacturing is decreasing due to geopolitical risks and the recent tariffs imposed by the Trump administration. Major brands are shifting production to Southeast Asia. In 2024, 42%of Lululemon's products were manufactured in Vietnam, compared to only 5% in China.

Raw Material Volatility | The activewear industry relies primarily on nylon and polyester. Prices for polyester feedstock remained volatile in 2025 (US prices at approximately $1,150/MT versus China at approximately $920/MT), creating a cost arbitrage that complicates pricing strategies.

Innovation Barriers | High-performance fabrics, such as Lululemon's Nulu™ or Vuori's DreamKnit™, require specialised machinery and proprietary blends. This creates barriers for potential "dupe" manufacturers, which often fail to replicate the exact hand-feel and durability of these patented textiles.

COMPETITIVE POSITIONING

For the purposes of this report, the activewear market is segmented into four groups

S

STRENGTHS

- **Gross margins** (58%) significantly higher than peers
- **"Science of Feel"** and patented fabrics (Nulu™, Everlux™)
- **100% control over distribution** (no wholesale sales)
- Efficient **"Grassroots"** marketing via local ambassadors.
- Exceptional **sales per square foot** ($1,500+).
- Outstanding **brand differentiation and loyalty**

W

WEAKNESSES

- Heavy **reliance on North America** (74% of revenue)
- **Premium price point** limits mass-market reach
- Brand still perceived primarily as **women/yoga-first**
- **Smaller TAM** compared to general sportswear

O

OPPORTUNITIES

- Massive runway in **Mainland China** (Tier 2/3 cities)
- Expanding the **men's business** revenue
- Expansion into **new categories**, such as Footwear, Hiking, and Tennis.
- Capturing **office wear spend** with technical trousers (ABC Pant)
- Capturing the **"casualisation" of the workplace**

T

THREATS

- **Low-cost imitators** (e.g., CRZ Yoga) eroding pricing power
- **Alo Yoga and Vuori** capturing the "cool factor" and Gen Z
- **Geopolitical risks** in key sourcing hubs (Vietnam, China)
- **Macroeconomic downturns** reducing discretionary apparel spend

Figure 28: SWOT Analysis
Source: Author

based on brand positioning, pricing power, and market share: **(i) Legacy Giants** (Nike, Adidas); **(ii) Premium Players** (**Lululemon**, On Holdings); **(iii) Disruptive Challengers** (Alo Yoga, Vuori); **(iv) Value Imitators** (CRZ Yoga). To complete the competitive analysis, Porter's Five Forces are presented below, and a SWOT analysis is shown in Figure 28.

Competitive Rivalry - High (5/5)

Lululemon maintains a leading position, with an estimated **21.2% share of US athleisure spending in Q3 2024**, but competitive pressure is increasing as incumbent brands redefine their strategies and emerging brands expand aggressively. Competitors such as Alo Yoga have followed in Lululemon's footsteps, positioning themselves as lifestyle brands, but also leveraging celebrity endorsements and a strong social media presence. Alo Yoga surpassed $1 billion in revenue in 2022. Similarly, Vuori, valued at approximately $5.5 billion in 2024, is expanding rapidly and pursuing a strategy inverse to Lululemon's, broadening its product offering from a male-focused brand into women's apparel.

Threat of New Entrants – Moderate to High (4/5)

The threat of new entrants is considered moderate to high, reflecting a paradox. While **entry barriers are low** for basic apparel, are **significantly higher for performance-oriented athleisure**. Developing proprietary fabrics requires substantial R&D investment, long-term supplier relationships, and supply-chain exclusivity. However, the rise of "dupe" brands has lowered effective barriers to entry, eroding entry-level pricing power and increasing competitive pressure at the lower end of the market.

Threat of Substitutes – Moderate (3/5)

The concern of substitution occurs within the same product category, as consumers are unlikely to replace athleisure with non-athleisure clothing, but they may easily switch between brands offering similar aesthetics and quality.

For example, switching from Lululemon Align leggings to Alo Airbrush leggings does not involve significant switching costs. The decision is driven primarily by brand perception. As Lululemon is well-known for outstanding **brand differentiation** and **loyalty**, this threat is considered to be moderate.

Bargaining Power of Suppliers - Moderate (3/5)

Lululemon's **supply chain is relatively concentrated**, as it requires technical specialization due to proprietary fabrics, with 52% of its fabric coming from only the top five suppliers, which increases supplier leverage. However, the company relies on suppliers located in regions such as Taiwan and Sri Lanka, and the economic dependence created in suppliers by the scale of Lululemon's production moderates this threat.

Bargaining Power of Buyers - Moderate (3/5)

Lululemon's core customer base is relatively price-inelastic due to strong brand equity and product differentiation. However, the rise of inflation in 2022 and

the emergence of “dupes” create bargaining power at the entry level of the market, particularly in discretionary purchasing decisions.

FINANCIAL ANALYSIS

Over the past five years (FY2021–2025*), Lululemon has shown strong revenue growth, driven by the ***Power of Three x2*** strategy, with revenues increasing from $6.3bn in 2021 to $11.1bn in 2025. While margins remained stable, they declined in 2022, with gross margin reduced to 55.0% compared to 57.7% in 2021, reflecting higher air freight costs and the normalization of demand levels after the COVID-19 pandemic (Table 3).

The **China segment** has been the main **growth driver** outside the Americas, with a CAGR of 38% between 2021 and 2025. Over the projection period (2026-2030), the company is expected to continue expanding its sales in China and the Rest of the World, with expected CAGRs of 12% and 9%, respectively. Margins are expected to decrease in FY2025* due to tariffs and to increase gradually in the following years. While operations are expected to become more efficient, the company faces risks related to regional factors, which are likely to increase the COGS.

The macroeconomic scenario under the Donald Trump administration brought renewed discussion about commercial tariffs, particularly on products imported from China. For Lululemon, this represents a strategic risk, as a significant part of its production and growth comes from the Asian region.

The company has been diversifying its suppliers in the region, increasing the weight of countries such as Vietnam, Cambodia, and Sri Lanka, thereby **reducing dependence on China**. With nearly 14.2% of its revenue coming from China in 2025, Lululemon is not merely an importer, but also a major player in the domestic market, providing a form of natural hedging against bilateral trade tensions.

The growing global awareness of well-being and “preventive health” following the COVID-19 pandemic acts as a natural catalyst for the brand. If Lululemon is able to maintain a strong level of brand loyalty and expand into new categories, such as menswear and footwear, it is expected to continue experiencing stable and sustainable growth, especially in markets outside the US. In the US, in the short term, Lululemon is expected to face slower growth, particularly due to competition from brands such as Alo Yoga and Vuori. The forecasted financial statements and assumptions are presented in Appendices 2, 3, and 4.

Profitability Ratios	FY2021	FY2022	FY2023	FY2024	FY2025*	2026E	2027E	2028E	2029E	2030E	Average 5 years	Average 3 years
Return on Assets (ROA)	20%	15%	22%	24%	19%	19%	20%	21%	22%	22%	20%	22%
Return on Equity (ROE)	36%	27%	37%	42%	33%	34%	34%	35%	37%	37%	35%	37%
Return on Capital (ROIC)	43%	28%	47%	46%	35%	36%	37%	40%	42%	42%	40%	43%
Margin Ratios												
Gross Profit Margin	58%	55%	58%	59%	55%	56%	56%	57%	58%	58%	57%	58%
Operating Margin	21%	16%	22%	24%	19%	20%	20%	21%	22%	22%	21%	22%
EBITDA Margin	25%	20%	26%	28%	23%	24%	24%	25%	26%	26%	24%	26%
Net Margin	16%	10%	16%	17%	14%	14%	14%	15%	16%	16%	15%	16%
Liquidity Ratios												
Current Ratio	1.86	2.12	2.49	2.16	2.23	2.26	2.28	2.33	2.38	2.39	2.17	2.29
Quick Ratio	1.17	1.15	1.68	1.38	1.29	1.32	1.35	1.41	1.47	1.48	1.33	1.45
Avg. Days Receivables Out.	4 days	6 days	5 days	4 days	2 days	3 days	3 days	4 days	4 days	4 days	4 days	4 days
Avg. Days Inventory Out.	133 days	146 days	120 days	122 days	129 days	129 days	129 days	129 days	129 days	129 days	130 days	124 days
Avg. Days Payable Out.	40 days	17 days	32 days	23 days	13 days	13 days	13 days	13 days	13 days	13 days	25 days	23 days
Avg. Cash Conversion Cycle	98 days	135 days	93 days	103 days	118 days	119 days	120 days	120 days	120 days	120 days	109 days	105 days
Solvency Ratios												
Debt to Equity	80%	78%	68%	76%	74%	73%	72%	70%	68%	68%	75%	73%
Net Financial Leverage	0.61	0.81	0.25	0.44	0.58	0.55	0.52	0.46	0.39	0.39	0.54	0.42
Interest Coverage Ratio	–	–	–	–	–	–	–	–	–	–	–	–
Debt-to-EBITDA	1.41	1.53	1.14	1.11	1.31	1.27	1.24	1.17	1.10	1.10	1.30	1.19
Operating & Asset Management												
Receivable Turnover	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Inventory Turnover	0.36	0.40	0.33	0.33	0.35	0.35	0.35	0.35	0.35	0.35	0.36	0.34
Payables Turnover	0.11	0.05	0.09	0.06	0.04	0.04	0.04	0.04	0.04	0.04	0.07	0.06
Assets Turnover	1.27	1.45	1.36	1.39	1.40	1.40	1.40	1.40	1.40	1.40	1.37	1.38
CAPEX-to-Sales	8%	9%	7%	6%	7%	7%	7%	6%	6%	6%	7.5%	7%
PP&E-to-Sales	15%	16%	16%	17%	16%	16%	16%	16%	16%	16%	16%	16%
Net non-current assets-to-Sales	37%	30%	32%	34%	34%	33%	33%	33%	33%	32%	33%	33%
Tangible Fixed Assets-to-Sales	15%	16%	16%	17%	16%	16%	16%	16%	16%	16%	16%	16%

Table 3 - Lululemon Key Financials: Actual Values for 2021-2024, Expected Values for 2025 and Forecasted Values for 2026-2030
Source: Author, Company Data

REVENUE GROWTH AND SEGMENT EXPANSION

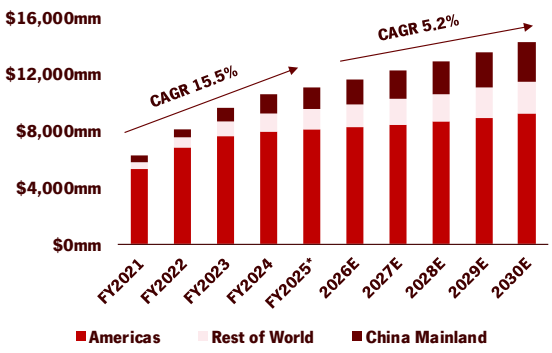


Figure 29: Revenue Evolution in FY2021 - 2030E
Source: Author, Company Data

Over the past five years, Lululemon achieved a total revenue CAGR of 15.5%, growing from $6.3bn in 2021 to $11.1bn in 2025. This growth has been largely influenced by expansion outside the Americas, especially in Mainland China, offsetting the slower growth of a more mature market such as North America.

For the **forecast period (2026–2030)**, total revenue is expected to grow at a **CAGR of 5.2%**, reaching approximately $14.3bn by 2030 (Figure 29). This expansion will be driven by internationalization, as well as product innovation, reflected in the expected growth of the men's category (Figure 31) and in "other products" revenue (mainly driven by footwear) and digitalization, through the growth of DTC sales (Figure 30), which represent online sales.

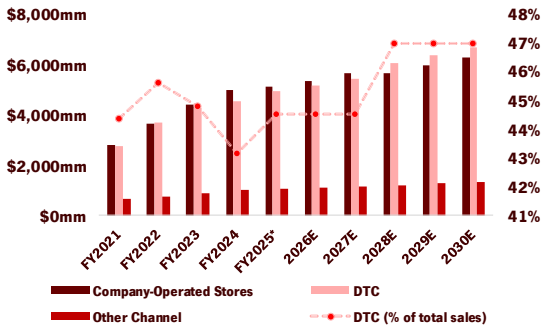


Figure 30: Revenue Breakdown by Distribution Channel
Source: Author, Company Data

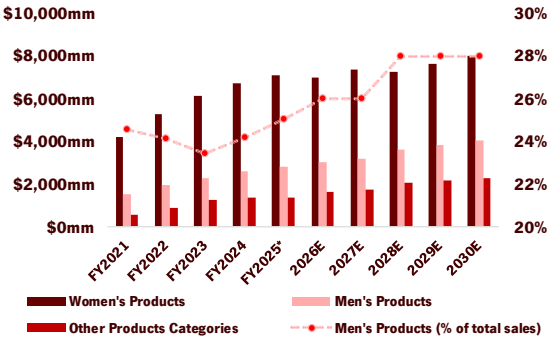


Figure 31: Revenue Breakdown by Product
Source: Author, Company Data

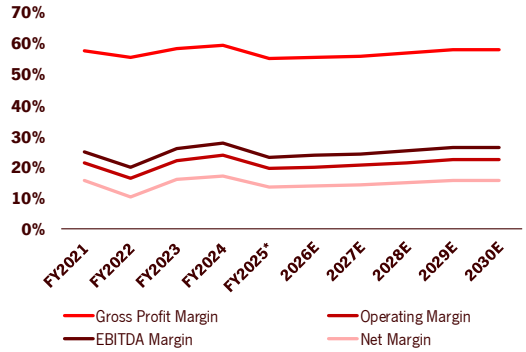


Figure 32: Margins Trend (FY2021 - 2030E)
Source: Author, Company Data

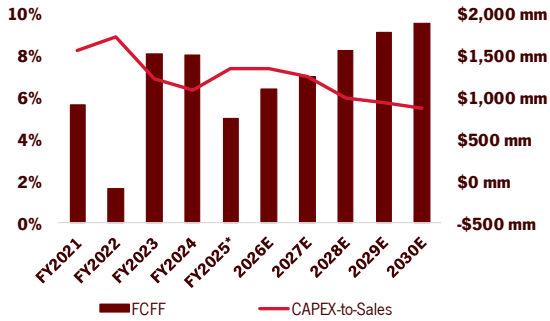


Figure 33: FCFF Trend (FY 2021-2030E)
Source: Author, Company Data

Digital sales are expected to continue growing as the brand becomes more established in regions outside the Americas. As the company becomes more mature and familiar to consumers, physical retail locations become relatively less important, and consumers show greater confidence in purchasing online, as they are already familiar with the product and fit.

MARGINS

Lululemon's margins over the last five years (2021–2025) remained robust despite a temporary compression in 2022 due to macroeconomic events and geopolitical tensions. Over the historical period, EBITDA, EBIT, and Net Margins averaged **24.4%, 20.6%, and 14.6%**, respectively (Figure 32). Strong brand loyalty and positioning allowed Lululemon to maintain its premium pricing, outperforming industry peers in terms of margins. Another margin compression occurred in 2025, again driven by geopolitical tensions and tariffs that affected the company's global supply chain.

Looking at the forecast period (2026–2030), Lululemon is expected to increase margins, although it may face difficulties in surpassing previous levels. The company's growth will be driven by product mix expansion and continued internationalization. In addition, the company faces pressure on its supply chain, which is becoming more relevant due to ongoing global conflicts. Despite these challenges, Lululemon is expected to balance these difficulties with increased DTC sales through online channels and supply chain optimization aligned with its evolving product mix. This is expected to result in a gross margin of approximately 58% by 2030, with an operating margin of around 22%.

CAPEX, CASH FLOWS, AND WORKING CAPITAL

Lululemon's growth is supported by a disciplined investment approach, with **CAPEX-to-sales averaging 7.5% during the 2021–2025 period**. These investments have been strategically allocated to digital infrastructure and new store openings in Tier-1 cities in mainland China. This ratio is expected to remain stable until 2027 and then decrease in the following years, reaching 5.5% by 2030, in line with expectations under the Power of Three x2 growth strategy. Investment is expected to be redirected mainly toward opening stores in top Tier-2 cities in China and broadening the product mix.

The company's cash generation remains one of its key strengths. **Free cash flow to firm (FCFF)** is expected to grow from **$753mm in 2025 to $1.8bn by 2030** (Figure 33). This strong liquidity is further supported by an efficient working capital cycle, with inventory turnover and accounts receivable remaining stable at historical averages. Lululemon has no financial debt, only liabilities relate to store leases. This consistent cash flow and high liquidity allow Lululemon to fund its expansion while maintaining its share repurchase programs without the need for external debt.

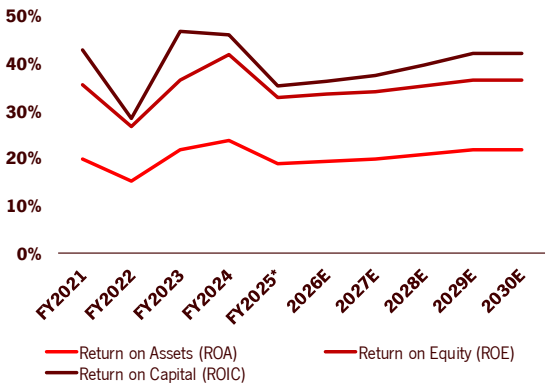


Figure 34: ROA, ROE and ROIC Trend (FY2021-2030E)
Source: Author, Company Data

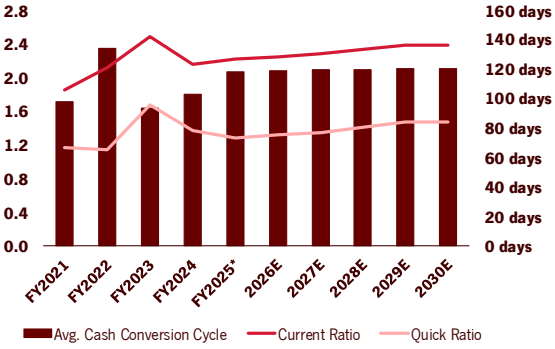


Figure 35: Cash Conversion Cycle and Solvency Ratios
Source: Author, Company Data

DCF Valuation FY 2026 (mm $)	
Enterprise Value ($mm)	**28,095**
(+) Cash ($mm)	**1,886**
(-) Debt ($mm)	**-1,763**
Equity Value ($mm)	**28,219**
Share Count (mm)	**119**
Implied Price per Share ($)	**237.96**
Upside	**24.5%**

Table 4 - DCF Valuation
Source: Author

YEAR	FCFF ($mm)	Terminal Value ($mm)	PV ($mm)
2026E	$1,109		**$1,099**
2027E	$1,255		**$1,144**
2028E	$1,557		**$1,305**
2029E	$1,775		**$1,367**
2030E	$1,882	$30,834	**$28,095**

Table 5 - FCFF and Terminal Value Estimates
Source: Author

PROFITABILITY, SOLVENCY, AND LIQUIDITY

Lululemon has maintained highly resilient profitability metrics, with historical ROE averaging 34.8% and ROA at 19.9% over the 2021–2025 period. By 2030, ROE is forecast to reach 36.6% and ROA 21.8% (Figure 34), reflecting highly efficient capital allocation and strong returns on international investments.

From a solvency perspective, the company operates with a very **conservative capital structure**. As noted above, Lululemon has no financial debt, with liabilities limited to store leases.

Liquidity also remains robust, with the current ratio expected to increase from a historical average of 2.17 (2021–2025) to 2.39 by 2030 (Figure 35). This financial stability provides a **"natural hedge"** against current geopolitical volatility and trade tensions.

VALUATION

The **BUY** recommendation for Lululemon is supported by a **12-month target price of $237.96**, which represents a **25% upside potential** from the closing price of $191.07 on January 23, 2026. This recommendation is based on a DCF valuation, complemented by a relative valuation approach. While the relative valuation is not incorporated into the price target, it serves to corroborate the recommendation from a market perspective. To account for investment risks, which are discussed in the following section, the DCF analysis is further complemented by scenario and sensitivity analyses.

DCF VALUATION

The DCF valuation uses a **FCFF** approach to estimate cash flows over the forecast period and uses the Gordon Growth Model to determine the terminal value. The approach covers a **five-year forecast period between 2026 and 2030** (Table 5). While FY2025 is not included in the forecast period, it is also projected. As of 24/01/2026, Lululemon has not yet released FY2025 results. To address this limitation, FY2025 figures are estimated and treated as actuals in the financial model. This approach yields an Enterprise Value (EV) of $28,095 million and a price per share of $237.96 on January 23, 2027(Table 4).

An **explicit forecast period of five years** is used to represent business growth up to the terminal year of 2030 (Appendix 5). Initially, a dichotomy is observed. On the one hand, there is strong growth in the China and Rest of World segments, while, on the other hand, there is a slowdown in the North American market, as it is a highly mature market in which Lululemon is expected to face significant challenges in the coming years due to the growth of its direct competitors. There is also a continuous margin evolution following the expected contraction in FY2025, which is strongly influenced by tariff-related tensions. In the subsequent years, it is natural to expect margins to remain below pre-forecast levels, as the geopolitical environment remains highly uncertain and Lululemon is exposed to these risks due to the sourcing of its

proprietary fabrics. It is expected that, although growth in the US remains moderate, it will recover by 2030, while, conversely, markets outside the US will slow down as they become more mature. On the other hand, despite margin pressure, the increase in online sales and the adaptation of the supply chain to a broader product mix, particularly footwear and menswear, are expected to be optimised, allowing the company to partially recover its margins to levels closer to those observed in the pre-forecast period.

WACC	
Current Price ($)	191.1
Basic Shares Outstanding (last filling, $mm)	118.6
Market Capitalization ($mm)	22657.9
% of Equity	92.8%
Cost of Equity	9.2%
Risk-free rate	4.2%
Beta	1.07
Equity Risk Premium	4.6%
Debt ($mm)	1762.7
% of Debt	7.2%
Cost of Debt	4.9%
Tax Rate	25.6%
WACC	**8.76%**

Table 6 - WACC Calculation
Source: Author

To discount the FCFF over the forecast period and the terminal value, a **WACC of 8.76%** is applied (Table 6). The **cost of debt (4.94%)** is calculated using a synthetic rating approach (Appendix 6). Given Lululemon's capital structure, where there is no debt, the interest coverage ratio is calculated based on its lease expenses, which leads to a synthetic rating of A, yielding a default spread of 0.70% (Damodaran). This spread is added to the risk-free rate (4.24%), proxied by the yield on the US 10-year Treasury bond, to calculate the pre-tax cost of debt. The **cost of equity (9.2%)** is estimated using the CAPM, incorporating the risk-free rate and a beta of 1.07 calculated using a bottom-up approach (Appendix 7). To estimate this beta, the betas of comparable peer companies were unlevered to capture the industry's pure business risk, and the median unlevered beta was subsequently relevered using Lululemon's current capital structure and marginal tax rate. The market risk premium of 4.6% is calculated by weighting regional sales and applying the corresponding regional market risk premiums sourced from Damodaran.

The terminal value is calculated using the Gordon Growth Model with a **terminal growth rate (TGR) of 2.50%**. This rate is justified for Lululemon's premium brand positioning, which gives it strong pricing power to easily match inflation. Additionally, unlike fully mature retail competitors, Lululemon still has significant room for international expansion, particularly in China and Europe.

SENSITIVITY ANALYSIS

TGR (%) \ WACC (%)	10.2%	9.7%	9.3%	8.9%	8.76%	8.0%	7.6%	7.2%	6.8%
2.0%	185.8	195.8	206.9	219.4	219.4	249.7	268.3	289.9	315.4
2.1%	188.0	198.3	209.8	222.7	222.7	254.1	273.4	296.0	322.7
2.3%	190.3	200.9	212.7	226.1	226.1	258.7	278.8	302.4	330.4
2.4%	192.7	203.6	215.8	229.6	229.6	263.4	284.4	309.1	338.6
2.50%	192.7	203.6	215.8	229.6	229.6	263.4	284.4	309.1	338.6
2.6%	197.8	209.3	222.3	237.1	237.1	273.6	296.5	323.7	356.4
2.8%	200.4	212.3	225.8	241.1	241.1	279.1	303.0	331.6	366.1
2.9%	203.1	215.4	229.3	245.2	245.2	284.8	309.9	339.9	376.4
3.0%	205.9	218.6	233.0	249.5	249.5	290.8	317.1	348.7	387.5

Table 7 - Sensitivity Analysis: WACC and TGR
Source: Author

To evaluate the impact of fluctuations in the WACC and the TGR, a sensitivity analysis is performed. The analysis highlights that Lululemon's valuation remains attractive even under more conservative assumptions. If the WACC were to increase to 10.15% due to rising interest rates or higher market volatility, and the terminal growth rate were to decline to 2.0%, the target price would still be approximately $185.8, which is only **slightly below** the current market price (Table 7). This outcome can be interpreted as a **"margin of safety"** across different macroeconomic conditions and further reinforces the BUY recommendation.

SCENARIO ANALYSIS

Scenario	Implied Share Price	Upside/ Downside
Bear Case	$124.06	-35%
Base Case	$237.96	25%
Bull Case	$335.75	76%

Table 8 - Scenario Analysis
Source: Author

To account for the high volatility in the discretionary retail sector and current geopolitical uncertainties, two alternative scenarios, **Bull** and **Bear** (Table 8), were modeled to test the resilience of Lululemon's valuation beyond the base case. Detailed assumptions are provided in Appendix 8.

Bull Scenario | The Bull Case (Appendix 9) projects a target price of **$335.75**, representing a more optimistic outlook in which Lululemon outpaces competitors in the US market (Vuori and Alo Yoga) and continues to gain market share from incumbents (Nike, Adidas, Puma, etc.). In addition, Lululemon is expected to successfully execute its international strategy.

The first pillar of the bull case, **US growth**, is achievable if Lululemon is able to innovate its products and recapture market share lost to Vuori and Alo Yoga, particularly among Generation Z. In this scenario, Lululemon is expected to maintain a **CAGR of 3.3% in Americas** revenue through 2030. This can be achieved through two main channels: innovation in core products and increased adoption of footwear and menswear, which would also allow Lululemon to capture market share from incumbents that offer a broader product range.

The second pillar is **internationalization**, which depends on two main factors: expansion into new markets and geopolitical conditions. The first component is primarily driven by expansion in China, particularly into Tier 2 and Tier 3 cities. This will depend on Lululemon's ability to launch new products at relatively lower price points, given the lower purchasing power in these regions. Under this scenario, Lululemon would maintain a **CAGR of 14.4% in Mainland China** through 2030. The second component depends largely on geopolitical conflicts and macroeconomic conditions, such as potential tariff wars. If these risks remain under control, Lululemon is expected to recover its margins more rapidly, with **EBIT margins expanding toward 24.5%.**

Additionally, the lower **WACC of 7.9% and TGR of 2.75%** in this scenario reflect a "soft landing" in the global economy and reduced regional risk premiums.

Bear Scenario | The Bear Case (Appendix 10) projects a target price of **$124.06**, changing the recommendation to **Sell**. This represents a pessimistic scenario in which Lululemon experiences **competitive erosion in the Americas**, where growth is significantly reduced due to the rising popularity of "dupe culture" and a loss of market share among younger demographics to competitors such as Alo Yoga and Vuori. This slowdown is reflected in a **CAGR of 1.3% through 2030 in the Americas**.

Additionally, Lululemon is expected to face **difficulties in expanding internationally**, failing to penetrate Tier 2 and Tier 3 cities in mainland China due to its inability to offer product lines at lower price points. This is primarily driven by margin constraints, which limit the company's capacity to reach those price levels.

This scenario is characterized by a **CAGR of 9.2% through 2030 in Mainland China**, which may initially appear high but is relatively limited given that China is expected to be the primary growth driver for Lululemon. On the other hand, profitability is negatively affected by external factors, with **EBIT margins compressing to a range of 16.0% to 18.0%** due to the implementation of aggressive trade tariffs on Asian imports, which the company is unable to fully pass on to price-sensitive consumers. Geopolitical tensions also impact the supply chain, which is not fully controlled by Lululemon and remains highly sensitive to conflicts in

the Middle East and potential tensions in the Pacific region, particularly in the event of a conflict between Taiwan and China.

The **WACC of 10.5%** reflects an environment of persistent inflation and heightened geopolitical risk, while a **TGR of 2.0%** reflects a loss of competitiveness over the period to 2030 that Lululemon is unable to recover. As observed, the magnitude of declines in both growth and margins is greater in the Bear scenario, as the underlying risks have a higher probability and a more significant impact on Lululemon's valuation.

RELATIVE VALUATION

A relative valuation is conducted to complement the DCF results. It provides a **market-based reality check** and shows how the market positions Lululemon relative to its peers, which include global athletic, footwear, and premium lifestyle brands. More comparable peers such as **Vuori** and **Alo Yoga** were not included, as they are not publicly traded companies.

Ticker	Company Name	EV/Revenue	EV/EBITDA	P/E
LULU	**Lululemon Athletica Inc.**	**2.2**	**8.3**	**13.9**
DECK	Deckers Outdoor Corp.	1.3	15.7	79.7
ADS	Adidas AG	2.1	25.8	37.7
UAA	Under Armour, Inc.	2.7	10.8	15.8
NKE	Nike, Inc.	0.6	23.5	-8.9
ATZ	Aritzia Inc.	0.7	14.2	-20.6
ONOM	On Holding AG	3.8	19.8	40.2
PUM	PUMA SE	3.9	25.9	81.5
Mean		**2.2**	**19.4**	**32.2**
Median		**2.1**	**19.8**	**37.7**

Implied Share Price	EV/Revenue	EV/EBITDA	P/E
Mean	**$ 203.3**	**$ 424.6**	**$407.8**
Median	**$ 198.0**	**$ 433.7**	**$477.4**

Table 9 - Relative Valuation: EV/Revenue, EV/EBITDA and P/E
Source: Author

In terms of operational metrics, Lululemon stands out with a **ROE of 34%**, an **EBITDA margin of 24%**, and a **ROIC of 38%**, which are outstanding relative to the industry average. Typically, such superior profitability and capital efficiency would justify a valuation premium. However, market data as of January 24, 2026 suggest that **Lululemon's stock is trading at discount**. While the peer group trades at a mean P/E of 32.2x and a mean EV/EBITDA of 19.39x, Lululemon is currently trading at a trailing P/E of 13.9x and an EV/EBITDA of 8.3x.

To conduct the relative valuation, three multiples are used: EV/Revenue, EV/EBITDA, and the P/E ratio. EV/Revenue allows for a comparable basis across companies with different capital structures, as it is unaffected by leverage. EV/EBITDA is the core operating multiple, as it measures the business's ability to generate cash from operations while excluding non-cash expenses and interest, enabling a direct comparison of operational profitability. Lastly, the P/E ratio is the most widely used market multiple and captures investor sentiment and the premium investors are willing to pay for Lululemon's earnings.

By applying the peer mean multiples to Lululemon's FY2025 financial metrics, the **implied share prices are higher than the current market price** (Table 9). The valuation based on the peer mean EV/EBITDA (19.39x) results in an implied share price of $449.42, while the P/E-based approach (32.2x) suggests a value of $434.25. Even the more conservative EV/Revenue multiple (mean of 2.16x) implies a share price of $206.84, which is closely aligned with the current trading price.

The discrepancy between these implied values and the DCF target price of $237.96 highlights the conservative nature of the DCF model, which already incorporates long-term growth normalization. Overall, the relative valuation suggests that **Lululemon is undervalued**. As the company continues to grow and demonstrates the resilience of its international expansion and product mix, the market is expected to better

recognize its intrinsic value. This valuation gap corroborates the **BUY recommendation**.

INVESTMENT RISKS

Lululemon operates in the global consumer discretionary sector, which implies exposure to multiple risks inherent to both the industry and the geographies in which the company operates. Effective risk management must mitigate these threats, supporting the company in achieving its strategic goals defined under the Power of Three ×2 strategy and in creating long-term shareholder value.

While the company has a "bullet-proof" balance sheet and a dominant market position, it faces several risks, which are categorized below as **Strategic Risks (SR)**, **Market Risks (MR)**, **Climatic Risks (CR)**, and **Financial Risks (FR)** (Table 10). This assessment materialized in the matrix presented in Table 10 and evaluates both the probability of occurrence and the potential impact of each risk.

Investment Risk	Probability	Impact
SR1	5	5
SR2	4	5
SR3	3	4
MR1	5	4
CR1	4	3
FR1	3	2

Table 10 - Lululemon's Risk Matrix
Source: Author

STRATEGIC RISKS (SR)

SR1. Competitive Erosion and "Dupe" Culture

Probability: High | Impact: High

The athleisure market has become a hyper-competitive "red ocean." Lululemon is starting to lose market share to Gen-Z-favored brands such as Alo Yoga and Vuori. In parallel, the rise of high-quality "dupes" at lower price points threatens Lululemon's pricing power. As pricing power erodes, margins are likely to continue contracting in the coming years.

SR2. Product Execution and Quality Control

Probability: Moderate–High | Impact: High

The brand's "Science of Feel" value proposition is vulnerable to operational failures. In early 2026, the new "Get Low" collection was recalled due to sheerness issues. Persistent execution errors could erode brand equity and require significant inventory write-downs, negatively affecting margins and growth, particularly in a saturated market such as North America.

SR3. Geopolitical Dependence on China

Probability: Medium | Impact: Moderate–High

China has become Lululemon's primary growth engine. By FY2029, China is expected to represent more than 20% of total revenue, creating asymmetric risk. Any regulatory crackdown, consumer boycott, or macroeconomic slowdown in China would have a significant negative impact on the company's revenue growth.

MARKET RISKS (MR)

MR1. Supply Chain Vulnerability and Tariffs

Probability: High | Impact: Moderate–High

Lululemon's supply chain is highly concentrated in Southeast Asia. Recent trade policies have introduced significant cost pressures. Vietnam, which accounts for 42% of Lululemon's manufacturing, is now subject to tariffs of nearly 46%. Cambodia, which represents approximately 16% of manufacturing, is subject to tariffs of almost 49%. If Lululemon is unable to pass these costs on to consumers, this would pose a major threat to the long-term gross margin assumption of 58% by 2030.

CLIMATE RISKS (CR)

CR1. Raw Material Volatility

Probability: Moderate–High | Impact: Moderate

Cotton represents approximately 10% of Lululemon's raw material base. Shifts in precipitation patterns and extreme weather events could trigger significant volatility in prices. Furthermore, water scarcity in Asia threatens water-intensive dyeing and finishing processes, potentially causing production delays and increasing COGS. The company also faces substantial decarbonization pressure across its supply chain, as it continues to rely heavily on coal-fired power in Vietnam and Sri Lanka. This constitutes an ESG reputational risk and could increase the company's cost of capital.

FINANCIAL RISKS (FR)

FR1. Foreign Exchange (FX) Exposure

Probability: Medium | Impact: Low–Moderate

As Lululemon's international footprint scales, a strong USD negatively impacts the translation of earnings from CNY, CAD, and EUR. This risk is particularly relevant in the high-growth Chinese market, where the increasing share of revenue makes Lululemon's earnings more sensitive to CNY/USD volatility. Over the past year, the US dollar has lost almost 5% of its value against the renminbi. The opposite scenario may also occur, especially during periods of heightened geopolitical uncertainty.

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APPENDICES

APPENDIX 1: INVESTMENT RECOMMENDATION SYSTEM

The report's recommendation is based on the **Expected Total Return (ETR)** over a 12-month investment horizon. The ETR is calculated as the percentage difference between the assigned target price and the current market price, plus the expected dividend yield.

Expected Total Return (ETR)	Recommendation
Under 5%	SELL
Betweeen 5% and 15%	HOLD
Above 15%	BUY

Source: Author

APPENDIX 2: BALANCE SHEET (ACTUAL AND FORECASTED)

Balance Sheet ($ mm)	FY2021	FY2022	FY2023	FY2024	Y2025*	2026E	2027E	2028E	2029E	2030E
Cash and Cash Equivalents	1,260	1,155	2,244	1,984	1,886	2,006	2,137	2,325	2,539	2,682
Accounts Receivable	77	133	125	120	60	85	110	131	144	151
Inventories	966	1,447	1,324	1,442	1,775	1,844	1,917	1,970	2,025	2,132
Prepaid and Receivable Income Taxes	119	186	184	182	219	230	242	255	268	282
Other Current Assets	193	239	185	251	268	282	296	311	328	345
Total Current Assets	**2,615**	**3,159**	**4,061**	**3,980**	**4,209**	**4,446**	**4,702**	**4,992**	**5,304**	**5,592**
Property and Equipment (net)	928	1,270	1,546	1,781	1,799	1,890	1,987	2,090	2,199	2,315
Operating Lease Right-of-Use Assets	804	969	1,266	1,416	1,521	1,579	1,642	1,687	1,735	1,826
Goodwill	387	24	24	160	160	160	160	160	160	160
Intangible Assets (net)	71	22	0	12	30	32	33	35	37	39
Other Non-Current Assets (including deferred tax)	138	162	196	255	239	251	264	278	292	307
Total Non-Current Assets	**2,328**	**2,448**	**3,031**	**3,623**	**3,748**	**3,911**	**4,086**	**4,249**	**4,423**	**4,647**
Total Assets	**4,942**	**5,607**	**7,092**	**7,603**	**7,957**	**8,357**	**8,788**	**9,241**	**9,727**	**10,239**
Accounts Payable	290	173	348	271	177	184	191	197	202	213
Accrued Liabilities	536	647	675	764	874	908	944	970	997	1,050
Lease Liabilities	189	208	249	275	307	319	332	341	350	369
Current Income Taxes Payable	134	174	12	183	142	153	165	182	200	211
Unredeemed Gift Card Liability	208	251	306	308	341	358	377	396	417	439
Other Current Liabilities	49	38	40	38	47	49	52	55	57	60
Total Current Liabilities	**1,405**	**1,492**	**1,631**	**1,840**	**1,888**	**1.971**	**2.060**	**2.140**	**2.224**	**2.342**
Non-Current Lease Liabilities	692	862	1,154	1,301	1,379	1,432	1,489	1,530	1,573	1,656
Deferred and Non-Current Income Taxes	91	84	45	98	90	95	99	105	110	116
Other Non-Current Liabilities	14	20	29	41	35	36	38	40	42	45
Total Non-Current Liabilities	**797**	**966**	**1,229**	**1,440**	**1,503**	**1,563**	**1,626**	**1,675**	**1,725**	**1,816**
Total Liabilities	**2,202**	**2,458**	**2,860**	**3,279**	**3,392**	**3,534**	**3,687**	**3,815**	**3,950**	**4,158**
Common Stock and Additional Paid-in Capital	423	475	576	639	708	786	871	966	1,072	1,188
Retained Earnings	2,513	2,926	3,920	4,110	4,282	4,462	4,654	4,884	5,130	5,317
Accumulated Other Comprehensive Income	-196	-253	-264	-424	-424	-424	-424	-424	-424	-424
Total Shareholders' Equity	**2,740**	**3,149**	**4,232**	**4,324**	**4,566**	**4,823**	**5,101**	**5,426**	**5,777**	**6,081**
Total Liabilities and Shareholders' Equity	**4,942**	**5,607**	**7,092**	**7,603**	**7,957**	**8,357**	**8,788**	**9,241**	**9,727**	**10,239**

Source: Author; Company Data

APPENDIX 3: INCOME STATEMENT (ACTUAL AND FORECASTED)

Income Statement ($ mm)	FY2021	FY2022	FY2023	FY2024	FY2025*	2026E	2027E	2028E	2029E	2030E
Americas	5,300	6,817	7,632	7,928	8,087	8,265	8,471	8,700	8,952	9,221
Rest of World	522	717	1,024	1,299	1,454	1,614	1,776	1,936	2,100	2,268
China Mainland	434	577	964	1,361	1,579	1,800	2,034	2,278	2,540	2,820
Company-Operated Stores	0	0	0	0	0	0	0	0	0	0
Direct to Consumer	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Revenues	**6257**	**8111**	**9619**	**10588**	**11120**	**11,679**	**12,281**	**12,914**	**13,593**	**14,309**
COGS	-2648	-3618	-4010	-4317	-5004	-5,197	-5,404	-5,553	-5,709	-6,010
Gross Profit	**3609**	**4492**	**5609**	**6271**	**6116**	**6,482**	**6,878**	**7,361**	**7,884**	**8,299**
Selling, General and Administrative Expenses	-2225	-2757	-3397	-3762	-3936	-4,134	-4,347	-4,571	-4,811	-5,064
Net Other Operating Expenses	0	-408	-75	0	0	0	0	0	0	0
D&A **Add back**	215	283	374	444	411	431	453	477	502	528
Gains on Disposals of Assets	0	0	0	0	0	0	0	0	0	0
Acquisition Related Expenses	-41	0	0	0	0	0	0	0	0	0
EBITDA	**1558**	**1610**	**2512**	**2952**	**2591**	**2,780**	**2,984**	**3,267**	**3,575**	**3,763**
D&A	-215	-283	-374	-444	-411	-431	-453	-477	-502	-528
Amortization of Intangible	-9	-9	-5	-3	-15	-16	-16	-17	-18	-19
Profit Before Interest and Tax (EBIT)	**1333**	**1318**	**2133**	**2506**	**2166**	**2,333**	**2,514**	**2,773**	**3,055**	**3,216**
Net unusual income (Financial Income)	1	4	43	70	22	23	25	27	30	31
Income Tax Expense	-359	-478	-626	-761	-686	-739	-796	-878	-968	-1,019
Profit After Tax (Net Income)	**975**	**845**	**1,550**	**1,815**	**1,502**	**1,617**	**1,743**	**1,922**	**2,117**	**2,228**
Net Profit Attributable to Shareholders	**975**	**845**	**1,550**	**1,815**	**1,502**	**1,617**	**1,743**	**1,922**	**2,117**	**2,228**

Source: Author; Company Data

APPENDIX 4: ASSUMPTIONS

The financial projections were constructed using the **percentage-of-sales** method and **historical ratio** analysis, relying primarily on three- and five-year historical averages to normalize the impact of macroeconomic outliers and non-recurring events.

Regarding the **Income Statement**, revenue growth by region is projected based on market maturity, international expansion targets, and industry trends. Cost of Goods Sold (COGS) is forecasted dynamically to reflect the costs of the international expansion strategy and specific supply chain risks, including tariff exposures. Selling, General, and Administrative (SG&A) expenses remain constant as a percentage of total revenue, based on the three-year historical average. Depreciation and Amortization (D&A) are calculated as a function of Property, Plant, and Equipment (PP&E) using the three-year average D&A-to-PP&E ratio, with the same approach applied to the amortization of intangible assets. Net Other Operating Expenses, Gains on Disposals of Assets, and Acquisition-Related Expenses are projected at zero, as no near-term structural expenses are anticipated beyond the one-off 2020 Mirror impairment. Financial Income is modeled as a function of Cash and Cash Equivalents, and Income Tax Expense is calculated using the three-year average effective tax rate.

Concerning the **Balance Sheet**, Accounts Receivable and Inventories are calculated as a percentage of Sales and COGS, respectively, using three-year historical averages to reflect stable working capital efficiency. Other current and non-current assets are modeled as a percentage of sales based on three-year averages. The CAPEX-to-Sales ratio was projected manually to account for the investments required for the ongoing international expansion and product mix broadening. Consequently, PP&E evolves according to these specific CAPEX

projections. Net Intangible Assets are projected using the five-year median relative to sales to exclude past acquisition distortions. Goodwill remains constant over the forecasted period, assuming no new corporate acquisitions.

Regarding Liabilities and Equity, Accounts Payable are projected as a function of COGS (three-year average). Accrued compensation and other current liabilities are calculated as a percentage of SG&A (three-year average), assuming they track general operating expenses. Current Income Taxes Payable use the five-year average ratio against the income tax expense. Unredeemed Gift Card Liability is modeled as a percentage of revenue (three-year average). Non-current lease liabilities scale in line with sales and PP&E, reflecting long-term obligations from retail expansion, while other non-current liabilities are projected using the five-year average percentage of revenue. Finally, Common Stock and Additional Paid-in Capital are projected based on the median historical growth rate of the last five years. Accumulated Other Comprehensive Income (AOCI) is held stable, as it comprises unpredictable non-operating adjustments excluded from the operating forecast.

Assumptions Forecasted Statements	FY2020	FY2021	FY2022	FY2023	FY2024	Average (3y)	Average (5y)	FY2025*	2026E	2027E	2028E	2029E	2030E
Americas Revenue - YoY growth (%)	--	--	28.6%	11.9%	3.9%	**15%**	**-**	2.0%	2.2%	2.5%	2.7%	2.9%	3.0%
Rest of World Revenue - YoY growth (%)	--	--	37.2%	42.9%	26.8%	**36%**	**-**	12.0%	11.0%	10.0%	9.0%	8.5%	8.0%
China Mainland Revenue - YoY growth (%)	--	--	32.8%	67.2%	41.3%	**47%**	**-**	16.0%	14.0%	13.0%	12.0%	11.5%	11.0%
COGS (% of Sales)	44.0%	42.3%	44.6%	41.7%	40.8%	**42%**	**43%**	45.0%	44.5%	44.0%	43.0%	42.0%	42.0%
Financial Income (% of Cash and Cash Equivalents)	-0.1%	0.0%	0.4%	1.9%	3.5%	**2%**	**1%**	1%	1%	1%	1%	1%	1%
Income Tax Expense (% tax rate)	28%	27%	36%	29%	30%	**32%**	**30%**	32%	32%	32%	32%	32%	32%
Prepaid and Receivable Income Taxes (% of Sales)	3%	2%	2%	2%	2%	**2%**	**2%**	2%	2%	2%	2%	2%	2%
Deferred and Non-Current Income Taxes (% of Sales)	2%	1%	1%	0%	1%	**1%**	**1%**	1%	1%	1%	1%	1%	1%
Current Income Taxes Payable (% of Income Tax Expense)	4%	37%	36%	2%	24%	**21%**	**21%**	21%	21%	21%	21%	21%	21%
SG&A (% of Sales)	36.6%	35.6%	34.0%	35.3%	35.5%	**35%**	**35%**	35%	35%	35%	35%	35%	35%
Net Other Operating Expenses (% of Sales)	0.0%	0.0%	5.0%	0.8%	0.0%	**2%**	**1%**	0%	0%	0%	0%	0%	0%
Amortization of Intangible (% of Intangible Assets)	6%	11%	28%	100%	19%	**49%**	**33%**	49%	49%	49%	49%	49%	49%
Depreciation rate (% of PPE)	21%	22%	23%	23%	22%	**23%**	**22%**	23%	23%	23%	23%	23%	23%
Inventory Turnover	0.33	0.36	0.40	0.33	0.33	**35%**	**35%**	35%	35%	35%	35%	35%	35%
Receivables Turnover	0.01	0.01	0.02	0.01	0.01	**0.01**	**0.01**	0.01	0.01	0.01	0.01	0.01	0.01
Assets Turnover	0.95	0.79	0.69	0.74	0.72	**0.72**	**0.78**	0.72	0.72	0.72	0.72	0.72	0.72
Other Current Assets Turnover	0.03	0.03	0.03	0.02	0.02	**0.02**	**0.03**	0.02	0.02	0.02	0.02	0.02	0.02
Payables Turnover	0.01	0.01	0.02	0.02	0.06	**0.04**	**0.03**	0.04	0.04	0.04	0.04	0.04	0.04
PP&E-to-Sales	17%	15%	16%	16%	17%	**16%**	**16%**	16%	16%	16%	16%	16%	16%
CAPEX-to-Sales	6%	8%	9%	7%	6%	**7%**	**7%**	7%	7%	7%	6.0%	5.8%	5.5%
Accrued Liabilities (% of COGS)	18%	20%	18%	17%	18%	**17%**	**18%**	17%	17%	17%	17%	17%	17%
Operating Lease Right-of-Use Assets (% of COGS)	38%	30%	27%	32%	33%	**30%**	**32%**	30%	30%	30%	30%	30%	30%
Non-Current Lease Liabilities (% Right-of-Use Assets)	86%	86%	89%	91%	92%	**91%**	**89%**	91%	91%	91%	91%	91%	91%
Lease Liabilities (% Right-of-Use Assets)	23%	24%	21%	20%	19%	**20%**	**21%**	20%	20%	20%	20%	20%	20%
APIC - YoY growth (%)	9%	9%	12%	21%	11%	**15%**	**12%**	11%	11%	11%	11%	11%	11%
Intangible Assets (% of sales)	2%	1%	0%	0%	0%	**0%**	**1%**	0%	0%	0%	0%	0%	0%
Other Non-Current Assets (% of sales)	3%	2%	2%	2%	2%	**2%**	**2%**	2%	2%	2%	2%	2%	2%
Unredeemed Gift Card Liability (% of sales)	4%	3%	3%	3%	3%	**3%**	**3%**	3%	3%	3%	3%	3%	3%
Other Current Liabilities (% of SG&A)	1%	2%	1%	1%	1%	**1%**	**1%**	1%	1%	1%	1%	1%	1%
Other Non-Current Liabilities (% of sales)	0%	0%	0%	0%	0%	**0%**	**0%**	0%	0%	0%	0%	0%	0%

Source: Author; Company Data

APPENDIX 5: DCF MODEL

DCF ($mm)	FY2025*	2026E	2027E	2028E	2029E	2030E
Americas	8,087	8,265	8,471	8,700	8,952	9,221
% growth	*2%*	*2.2%*	*2.5%*	*2.7%*	*2.9%*	*3.0%*
Rest of World	1,454	1,614	1,776	1,936	2,100	2,268
% growth	*12%*	*11.0%*	*10.0%*	*9.0%*	*8.5%*	*8.0%*
China Mainland	1,579	1,800	2,034	2,278	2,540	2,820
% growth	*16%*	*14.0%*	*13.0%*	*12.0%*	*11.5%*	*11.0%*
Revenues	***11,120***	***11,679***	***12,281***	***12,914***	***13,593***	***14,309***
% growth	***5%***	***5%***	***5%***	***5%***	***5%***	***5%***
EBIT	2,166	2,333	2,514	2,773	3,055	3,216
% EBIT Margin	19%	*20%*	*20%*	*21%*	*22%*	*22%*
Taxes	-686	-739	-796	-878	-968	-1,019
% tax rate	*32%*	*32%*	*32%*	*32%*	*32%*	*32%*
NOPAT	1,473	1,587	1,710	1,886	2,078	2,187
D&A	411	431	453	477	502	528
CAPEX	-821	-862	-860	-775	-782	-787
Change in Working Capital	-310	-47	-48	-31	-23	-47
Free Cash Flows to Firm (FCFF)	**753**	**1,109**	**1,255**	**1,557**	**1,775**	**1,882**
PV of FCFF	**--**	**1,099**	**1,144**	**1,305**	**1,367**	**1,333**
Period		0.11				
Discount Period		0.11	1.11	2.11	3.11	4.11
TV						**30,834**
PV of TV						**21,846**
Enterprise Value						**28,095**
(+) Cash						1,886
(-) Debt						-1,763
Equity Value						**28,219**
Share Count (mm)						119
Implied Price per Share ($)						**237.96**

Source: Author

APPENDIX 6: COST OF DEBT CALCULATION

Cost of Debt (Synthetic Rating by Profº Damodaran)	
Net Lease Expenses ($mm)	537.9
EBIT - FY 2025 ($mm)	2165.6
Interest Coverage Ratio	4.03
Syntheetic Rating	A1
Default Spread	0.70%
Risk-free rate	4.24%
Cost of Debt (before taxes)	4.94%

Source: Author

APPENDIX 7: BETA CALCULATION

Ticker	Company Name	Levered Beta	D/E	Tax Rate	Unlevered Beta	Relevered Beta
DECK	Deckers Outdoor Corp.	1.16	0.1	25.6%	1.08	N/A
ADS	Adidas AG	1.20	0.9	29.9%	0.74	N/A
UAA	Under Armour, Inc.	1.77	1.2	25.6%	0.94	N/A
NKE	Nike, Inc.	1.29	0.8	25.6%	0.81	N/A
ATZ	Aritzia Inc.	1.67	0.8	26.1%	1.05	N/A
ONON	On Holding AG	2.14	0.3	25.6%	1.75	N/A
PUM	PUMA SE	0.96	1.5	29.9%	0.47	N/A
Mean					**0.98**	
LULU	Lululemon Athletica Inc.	N/A	0.08	25.6%	N/A	**1.07**

Source: Author

APPENDIX 8: SCENARIO ANALYSIS (ASSUMPTIONS)

Bull Case	2026E	2027E	2028E	2029E	2030E
Americas *(% of growth)*	2.5%	2.8%	3.0%	3.5%	4.0%
Rest of World *(% of growth)*	14.0%	12.0%	11.0%	10.5%	10.0%
China Mainland *(% of growth)*	16.0%	15.5%	15.0%	14.0%	13.0%
EBIT Margin	22.0%	22.5%	23.0%	24.0%	24.5%
WACC			7.88%		
TGR			2.75%		

Bear Case	2026E	2027E	2028E	2029E	2030E
Americas *(% of growth)*	0.5%	0.8%	1.0%	1.5%	2.0%
Rest of World *(% of growth)*	9.0%	8.0%	7.0%	6.5%	6.0%
China Mainland *(% of growth)*	11.0%	10.0%	9.5%	9.0%	8.5%
EBIT Margin	16.0%	16.5%	17.5%	18.0%	18.0%
WACC			10.51%		
TGR			2.00%		

Source: Author

APPENDIX 9: DCF MODEL (BULL CASE)

DCF ($mm)	FY2025*	2026E	2027E	2028E	2029E	2030E
Americas	8,087	8,289	8,517	8,772	9,079	9,443
% growth	*2%*	*2.5%*	*2.8%*	*3.0%*	*3.5%*	*4.0%*
Rest of World	1,454	1,658	1,857	2,061	2,278	2,506
% growth	*12%*	*14.0%*	*12.0%*	*11.0%*	*10.5%*	*10.0%*
China Mainland	1,579	1,832	2,116	2,433	2,774	3,134
% growth	*16%*	*16.0%*	*15.5%*	*15.0%*	*14.0%*	*13.0%*
Revenues	***11,120***	***11,779***	***12,490***	***13,267***	***14,131***	***15,082***
% growth	***5%***	***6%***	***6%***	***6%***	***7%***	***7%***
EBIT	2,166	2,591	2,810	3,051	3,391	3,695
% EBIT Margin	19%	*22%*	*23%*	*23%*	*24%*	*25%*
Taxes	-686	-739	-796	-878	-968	-1,019
% tax rate	*32%*	*32%*	*32%*	*32%*	*32%*	*32%*
NOPAT	1,473	1,762	1,911	2,075	2,307	2,513
D&A	411	431	453	477	502	528
CAPEX	-821	-862	-860	-775	-782	-787
Change in Working Capital	-310	-47	-48	-31	-23	-47
Free Cash Flows to Firm (FCFF)	**--**	**1,285**	**1,456**	**1,746**	**2,004**	**2,208**
PV of FCFF	**--**	**1,274**	**1,339**	**1,489**	**1,583**	**1,617**
Period		0.11				
Discount Period		0.11	1.11	2.11	3.11	4.11
TV						**44,221**
PV of TV						**32,388**
Enterprise Value						**39,691**
(+) Cash						1,886
(-) Debt						-1,763
Equity Value						**39,815**
Share Count (mm)						119
Implied Price per Share ($)						**335.75**

Source: Author

APPENDIX 10: DCF MODEL (BEAR CASE)

DCF ($mm)	FY2025*	2026E	2027E	2028E	2029E	2030E
Americas	8,087	8,127	8,188	8,270	8,394	8,562
% growth	*2%*	*0.5%*	*0.8%*	*1.0%*	*1.5%*	*2.0%*
Rest of World	1,454	1,585	1,712	1,832	1,951	2,068
% growth	*12%*	*9.0%*	*8.0%*	*7.0%*	*6.5%*	*6.0%*
China Mainland	1,579	1,753	1,928	2,111	2,301	2,497
% growth	*16%*	*11.0%*	*10.0%*	*9.5%*	*9.0%*	*8.5%*
Revenues	***11,120***	***11,465***	***11,828***	***12,213***	***12,647***	***13,127***
% growth	***5%***	***3%***	***3%***	***3%***	***4%***	***4%***
EBIT	2,166	1,834	1,952	2,137	2,276	2,363
% EBIT Margin	19%	*16%*	*17%*	*18%*	*18%*	*18%*
Taxes	-686	-739	-796	-878	-968	-1,019
% tax rate	*32%*	*32%*	*32%*	*32%*	*32%*	*32%*
NOPAT	1,473	1,248	1,327	1,454	1,548	1,607
D&A	411	431	453	477	502	528
CAPEX	-821	-862	-860	-775	-782	-787
Change in Working Capital	-310	-47	-48	-31	-23	-47
Free Cash Flows to Firm (FCFF)	**--**	**770**	**873**	**1,125**	**1,245**	**1,302**
PV of FCFF	**--**	**762**	**781**	**911**	**913**	**864**
Period		0.11				
Discount Period		0.11	1.11	2.11	3.11	4.11
TV						**15,609**
PV of TV						**10,357**
Enterprise Value						**14,588**
(+) Cash						1,886
(-) Debt						-1,763
Equity Value						**14,712**
Share Count (mm)						119
Implied Price per Share ($)						**124.06**

Source: Author